

## FOCUS

### HEIR OF SAMSUNG GROUP

"Heir Apparent of Samsung  
Encounters Serious Challenge"

## ECONOMY & FINANCE

### CREATIVE ECONOMY BUDGET

Reaching 2.55 Trillion Won with  
Software Field Getting 24%

## INDUSTRY & COMPANY

### ENERGY MIX

Government to Reduce Ratio of  
Nuclear Power Generation

# BUSINESSKOREA

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## Tong Yang Group Scandal,

Showing Many Implications for  
Banking and Commerce Separation  
in Conglomerates' Businesses

30<sup>th</sup>

The special edition to  
celebrate the 30<sup>th</sup> anniversary  
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## Security Environment Fluctuating in Northeast Asia

With Washington officially backing up Japan's pursuit of a collective self-defense, a significant change is expected to be come up in the security environment of Northeast Asia. The joint announcement that was made at the Security Consultative Committee in Tokyo on September 3 is predicted to shake the post-war regime in the region, which has continued since the end of WWII, to its root.

The US government has expressed its opinion that Japan needs to be guaranteed with a collective self-defense for a stronger alliance in the Asia-Pacific region. At the same time, it has been concerned over some misunderstanding on the part of South Korea and potential conflicts with China.

Reasons for the pursuit of a stronger US-Japan alliance despite opposition from Beijing and Seoul include the ongoing financial difficulties of the US and its need to keep China in check. In other words, the Barack Obama administration is trying to cope with the weakening role of the US Armed Forces in Northeast Asia by means of its military alliance with Japan.

At present, the general consensus is that the joint announcement is capable of neutralizing the Peace Constitution of Japan that was enacted after WWII. Under the circumstances, Japanese Prime Minister Shinzo Abe is expected to accelerate his change in the interpretation of the Peace Constitution for the collective self-defense, which has faced some severe opposition even in his own country.

Earlier than that, senior US Senator John McCain said on August 26 at a press conference in Seoul, "We need to realize that things are now different from when the Peace Constitution was enacted in the past." The remark was criticized here as a support for Japan's attempts to revise the Peace Constitution.

In the meantime, the Ministry of Foreign Affairs of the People's Republic of China said on October 6 that the agreement between Washington and Tokyo to amend the guideline for their defense cooperation could make neighboring countries nervous. The Xinhua News Agency also announced that a closer military cooperation between the US and Japan will put their alliance in danger in the end.

The Korean government has made no official comment about the announcement on the excuse that the details including the scope of activities of the Japanese Self-defense Forces have yet to be made public. This is definitely something unfortunate for Korea in that it is in no position to raise its voice in the field of international politics where critical interests are conflicting.

The Park Geun-hye administration needs to gather wisdom and diplomatic capabilities to set up new diplomatic, economic and military strategies in today's international political dynamics taking a new shape at a rapid pace in the North East.

Park Jung-hwan,  
 Publisher & Editor-in-Chief



## HEIR OF SAMSUNG GROUP

# “Heir Apparent of Samsung Encounters Serious Challenge”



Lee Jae-yong, Vice Chairman  
of Samsung Electronics

The online edition of the Financial Times reported on October 1 that Samsung Electronics' Vice Chairman Lee Jae-yong is facing a tough test with corporate succession on the horizon. According to the Financial Times, Samsung Group chairman Lee Kun-hee, who headed the company for 26 years, promoted his only son to the position last month to signal the succession.

With the current chairman at the helm, Samsung has dominated the global memory semiconductor and TV markets. In addition, it has emerged as a powerhouse in the mobile phone market. No less than 246,000 employees are working for the company whose wide scope of business ranges from construction to life insurance. Still, it is Samsung Electronics, one of the most tech-oriented companies in the world, at the center of it.

However, the stock price of Samsung Electronics has declined 11% since

June this year due to investors' concerns over the profitability of its smartphone products and the possibility of its sustainable growth. Investors are casting doubts on whether or not the tech giant will be able to continue its stellar growth under the leadership of the heir apparent.

It is well known that the current chairman ordered his employees to burn all of the thousands of its sub-standard handsets during the early stage of its mobile phone business. Also famous is his Frankfurt declaration at the Kempinski Hotel back in June 1993. At that time, he told his 200 or so top management members to change everything but their wives and kids. It is said to be the speech that gave rise to what is now Samsung.

He was involved in a corruption scandal and resigned in 2008, but came back two years later. Samsung recorded substantial growth even during his absence. It is this very point that makes it hard for many investors to determine whether or not Samsung's success as of late should be attributed to the chairman's management abilities or those of its executive members, who are considered to be the most excellent and the most ambitious in Korea. "The Samsung Group has established a platform for the past 20 years on which professional managers can make decisions in a very organized way, and this is how it is different from Apple," said Marcello Ahn, fund manager at Quad Investment Management.

These days, many insiders are focus-

ing on how capable Vice Chairman Lee Jae-yong will be in leading the group. Aged 45 this year, he is known to be much more outgoing than his father. He studied at Keio University and Harvard Business School, and is good at both English and Japanese.

He started his official career in Samsung as a Chief Customer Officer (CCO). In 2007, when he took the position, not a few people were cynical about the appointment because they regarded it as a trivial job. However, he utilized his position to meet regularly with the late Steve Jobs, and became the only Asian entrepreneur who was invited to the memorial ceremony for the late founder of Apple two years ago.

Although Samsung Electronics and Apple are engaged in a series of lawsuits concerning smartphone patents, Apple is still one of the major customers of the components and parts manufactured by Samsung. The vice chairman's wide human networks built during his CCO days are now contributing greatly to the Samsung Group's global business with component suppliers and business partners. Samsung's smart TV business clearly shows that it is not just about manufacturing TV sets, but about fostering partnerships with content providers. The second-in-command's personal connections in the political community and the government of the United States have been a boon to the company's local smart TV business supported by Amazon, Netflix, Verizon, and many more.

Some people criticize the family of the owner for trying to keep manage-






Chairman Lee Kun-hee and his son Lee Jae-yong

ment rights with less than 5% of the shares of Samsung Electronics. Others claim that what the Vice Chairman can and cannot do should be found out first. However, those in the know say that vice chairman Lee Jae-yong has made great contributions to the success of the Galaxy series smartphones, and thus

such criticisms are ill-founded.

“It is hard to criticize the way Samsung does business because it has yielded good results,” said Jonathan Pines, who leads the Emerging Asia strategy at Hermes Fund Managers. He added, “Nonetheless, investors are predicting the next move like in a chess game.” 

## RESTRUCTURING OF SAMSUNG GROUP

### Market Participants Focusing on the Future of Corporate Structure of Samsung Group

Much attention is being paid to what will become of the Samsung Group's corporate governance structure. Investors have been busy calculating their potential profits since Samsung Everland's acquisition of the fashion business unit of Cheil Industries and Samsung SDS's announcement on its merger with Samsung SNS. Experts are predicting that Samsung C&T is likely to make substantial profits thanks to its high shares in Samsung SDS and Everland.

According to financial industry sources, the share price of Samsung SDS has gone up by 37.5% in the over-the-counter market since the merger with Samsung SNS a month ago. The change in the governance structure of the group is expected to take the form of a spin-off, through the reorganization among third-generation owners.

In actuality, there are some difficulties in predicting which businesses and subsidiaries will be spun off. However, the chance is high that Samsung SDS and Samsung Everland, where the second-generation owners' shareholder ratios are high, will be IPO targets in the near future for an appropriate shareholding ratio and fair price. Stock market insiders also say that investors need to focus on the two companies. According to them, the subsidiaries that own their shares can enjoy some increase in equity value if they are listed on the market.

At present, Samsung Everland's market value is estimated at approximately 5.5 to 7 trillion won (US\$5.1 billion to US\$6.5 billion). A per-share price of 1.82 million won (US\$1,694.05) was applied two years ago, when the Everland shares owned by Samsung Card were sold to KCC, and when Everland reacquired the treasury stocks. Considering this, the total value of the marketable securities is around 4.6 trillion won (US\$4.3 billion).

“Samsung Everland's company value is estimated at seven trillion won, allowing for its Samsung Life Insurance

shares, real estate assets, and the like,” said Korea Investment & Securities Research Analyst Lee Hoon, adding, “If a discount rate of between 0% and 30% is applied to the marketable securities, the total value is thought to be between 5.5 trillion and seven trillion won.”

In the meantime, Samsung SDS's company value is reckoned at around 5.821 trillion won (US\$5.419 billion). The per-share value of Samsung SDS and Samsung SNS was 75,220 won (US\$70.03) and 34,789 won (US\$32.39) at the time of the announcement of the merger, respectively. So the market value of the company after the merger is expected to reach 5.821 trillion won (US\$5.419 billion), which is approximately 11% of the market capitalization of Samsung C&T.

Samsung C&T and Samsung Electro-Mechanics currently have 11% of the Samsung SDS and Everland shares each, and Cheil Industries' percentage is 5%. The shares they own are not essential to maintain the management rights and thus are likely to be turned into cash after the IPO. KCC has 17% shares in Samsung Everland, too.

Under the circumstances, Samsung C&T's share price has gained 7.48% from 61,500 won (US\$57.24) to 66,100 won (US\$61.54) between September 23, the date of the announcement on the acquisition of the fashion business unit, and yesterday. Those of Samsung Electro-Mechanics and KCC have shown an upward trend as well.

“Investors would be well-advised to pay attention to Samsung C&T and Samsung Electronics during the reshaping of the governance structure,” said Lee Sang-heon, researcher at HI Investment & Securities. He went on, “They are expected to raise the value of Samsung SDS for contribution in kind, so as to strengthen their control and an issue such as a merger between Cheil Industries and Samsung Petrochemical could arise, too.”

### CRISIS OF TONG YANG GROUP

# Korea's 38th-largest Conglomerate on Blink of Bankruptcy



Cash-strapped Tongyang Group is on blink of bankruptcy though the 38th-largest conglomerate in Korea has been trying to sell its affiliates to remove liquidity risk. It is due to the fact that the conglomerate needs more than 1 trillion won (US\$930 million) to repay maturing debt such as bonds and commercial paper within three months. In addition, the proceeds from the sales of its subsidiaries are not enough to cover debts worth more than 3 trillion won.

According to sources in the investment banking industry, the net debt owed by the group's non-financial units amounted to 3.1 trillion won (US\$2.79 billion) as of 31 December 2012. In particular, commercial paper, whose maturity date arrives before the end of the year, approaches 800 billion won (US\$745 million), while corporate bonds exceed 300 billion won (US\$279 million). Since Tong Yang needs to secure more than 1

trillion won (US\$930 million) within the year, it decided to sell its affiliates.

The timing, however, seems not to be on Tongyang's side. In spite of the sales offer of its subsidiaries, the deal has not been successful in securing enough money to pay for bonds and commercial paper worth 1 trillion won (US\$930 million) to be matured at the end of this year. Generally, it takes at least three months for the merger and acquisition process to be finalized from a sales announcement to the selection of a preferred contender.

Finally, the group had no choice but to file for court receivership so as to avoid bankruptcy. On September 30, Tongyang Group's three affiliates Tong Yang Inc., Tong Yang Leisure, and Tong Yang International filed for a rehabilitation proceeding so as to avoid defaulting on bonds and commercial paper worth 110 billion won (US\$102 million) that

matured on the day. Thus, the possibility of raising 1.1 trillion won (US\$1.0 billion) for future bonds and commercial paper appears to be slim at the moment.

Nevertheless, the group does not have much to offer. The sales value of Tong Yang Inc., Tong Yang Leisure, and Tong Yang International is considered to be low, owing to unattractive characteristics of their business.

Anyway, as Tong Yang Leisure and Tong Yang International filed for court receivership, about 200 billion won (US\$186 million) or 33.8% of the shares of Tongyang Securities that the two companies retain will be the first going up for sale. Accordingly, the sale of its financial arm, Tongyang Securities, is inevitable.

The sale of the group's another key unit Tongyang Power is also unavoidable. Its value is estimated to be in the range of 800 billion to 1 trillion won

(US\$744 billion to US\$930 billion). Although several large companies are reported to be interested in the company, none of them are willing to acquire the company right now on account of the widely-circulating rumor that the Tongyang Group is about to fail.

Even with the sales offer of Tongyang Power and Tongyang Securities, the market thinks that the group missed the boat. Tongyang Group tried to keep Tongyang Power that is considered to be the group's nucleus. Nevertheless, the group ended up offering to sell the entire stake in its power unit valued at 1 trillion


won (US\$930 million). But the market considers the gesture to be too late.

Tongyang Securities also is not expected to attract candidates for its business sales soon. It is attributable to the company's increased risk, such as its deteriorating reputation arising from its prolonged role as the core affiliate that finances and supports the group. Its profit-generating ability is also thought to be decreased.

A head researcher of a securities firm said, "The situation that the securities industry faces is not good. Besides, Woori Investment & Securities is already

for sale. So, it will not be easy for Tongyang Securities to find an acquirer."

Even with the intentions of the chairman and his family to keep the tech services affiliate by handing over their assets, many think that maintaining the group itself will not be easy.

The prospect of Tongyang's dissolution appears to be looming large. The last hope, however, is in its cement business, since it has been the group's backbone from the beginning. For this reason, there is some possibility that Tongyang Cement will be the last company in the group. 

## DANGEROUS SIGNALS

### Chaebol-affiliated Stock Firms Issued 52 Trillion Won-worth of Debentures and CPs



Many securities firms reside in this financial district in Yoido

It has been found that the amount of corporate bonds and commercial papers (CPs) issued by the stock firms affiliated with the 30 major corporations in Korea has reached 52.8 trillion won (US\$49.7 billion) since 2010.

According to the Financial Supervisory Service's data recently submitted to Democratic Party lawmaker Lee Hakyong, the six securities firms belonging to the conglomerates have issued CPs, debentures, and asset-backed short-term bonds (ABSTB) worth a total of 52.764 trillion won (US\$49.704 billion), 21.973 trillion won (US\$20.687 billion) worth of which have been sold.

By company, Samsung Securities of the Samsung Group issued 19.831 trillion won (US\$18.680 billion) worth products and sold portions worth 13.628 trillion won (US\$12.835 billion). The size amounted to 14.717 trillion won (US\$13.856 billion) and 3.09 trillion won (US\$2.911 billion) for HMC Securities of the Hyundai Motor Group, 7.419 trillion won (US\$6.989 billion) and 2.148 trillion won (US\$2.023 billion) for SK Securities, 3.59 trillion won (US\$3.380 billion) and 1.6

trillion won (US\$1.5 billion) for Dongbu Securities, 4.3 trillion won (US\$4.0 billion) and 1.2 trillion won (US\$1.1 billion) for Hanwha Investment & Securities, and 2.9 trillion won (US\$2.7 billion) and 600 billion won (US\$565 million) for Hyundai Securities.

The data also pointed out that the financial authorities strengthen its monitoring on the incomplete sales of corporate bonds, a problem that has recently emerged due to the Tong Yang Group issue. "The scandal has reminded us of the fact that the practice of incomplete sales via an affiliated financial company can result in losses on the part of consumers," said the lawmaker, adding, "The authorities need to beef up its monitoring, and the financial investment regulations will have to be revised so as to prevent another Tong Yang Group scandal."

In the meantime, the sale of corporate bonds by stock firms affiliated with the conglomerates is banned from November 24 this year, according to revised financial investment regulations.



## LIQUIDITY CRISIS

# Cash-strapped Major Corporations Trying to Avoid Tong Yang's Fate



Dongbu Group chairman Kim Jun-ki speaks about misunderstandings of the financial status of the business group at an executive meeting held in Dangjin plant of Dongbu Steel on October 19.

**B**ig businesses on the verge of a liquidity crisis or under financial pressure due to heavy borrowing are coming up with self-help measures such as asset disposal and capital expansion one after another. The purpose of such measures is to take some action for financial restructuring in advance, in order to dispel the concerns of market participants. Their creditors are assisting them by means of debt-equity swaps, expedited underwriting of corporate bonds, and other deals.

The Dongbu Group, Keangnam Enterprise, Taihan Electric Wire, Hyundai Merchant Marine, and many more have recently announced such plans. The Dongbu Group applied for an expedited underwriting of Dongbu Steel's corporate bonds with Korea Development Bank (KDB), its main creditor bank, on October 17. The company, which chose the method to deal with 105 billion won (US\$98.9 million) worth of debentures of the steel manufacturer maturing in December this year, could take a breather on that day, as Dongbu Construction signed a contract with Consus Asset Management to sell its office building in Dongja-dong, Seoul for approximately 300 billion won (US\$283

million).

Dongbu Construction's total debt amount reached 658.8 billion won (US\$620.6 million) as of the end of August, 584.5 billion won (US\$550.6 million) of which matures within a year. The debt ratio amounted to 499.4% as of late June. Corporate bonds worth 277 billion won (US\$261 million) are scheduled to mature until the end of next year, and Dongbu Construction succeeded in preparing cash to hold out with until then by selling their office building.


Keangnam Enterprise is also trying to ease the worries of investors by publicly releasing new financing plans worth 300 billion won (US\$283 million) in total. At present, the amount of funds required for the company to repay debts, accounts receivable, and electronic bills by the end of 2013 is estimated at 265 billion won (US\$249 million). According to the new plans, a total of 299.5 billion won (US\$282.3 million) is expected to flow into the company. As of the last day of June, the company's total assets and liabilities were 1.8275 trillion won (US\$1.7215 billion) and 1.2517 trillion won (US\$1.1791 billion), respectively.

The debt ratio was 217.4%.

Some other conglomerates are moving ahead with similar plans with financial institution backing. For example, Taihan Electric Wire, which has impaired capital and is on the brink of being delisted, has sped up its debt restructuring. The creditors are planning to convert 670 billion won (US\$631 million) out of its 1.3 trillion won (US\$1.2 billion) debt into equity within this year. The cable manufacturer has sold a few real estate assets and subsidiaries during the past three years.

Hyundai Merchant Marine and Hanjin Shipping, both of which are under liquidity pressure due to the sluggish market, are also accelerating improving financial structures with the aid of banks. The former has recently succeeded in a conversion issue of 280 billion won (US\$264 million) of debentures maturing on October 22 by using the expedited underwriting of the bonds. It signed a special loan transaction agreement with main creditor bank, KDB. Hyundai Elevator, the largest shareholder of Hyundai Merchant Marine, entrusted the bank with the rights to dispose of 5% of the company shares.

Hanjin Shipping, which has 255 billion won (US\$240 million) of debentures maturing by September of next year, is planning to issue perpetual bonds of about 400 billion won (US\$377 million), too. It is in negotiations with KDB, Woori Bank, and Hana Bank now with regard to payment guarantees.

In the meantime, five subsidiaries of the KOLON Group, including construction arm KOLON Global, have recently secured some funds through KDB's credit granting and purchase guarantee. The financing was made by issuing 180 billion won (US\$169 million) worth of primary collateralized bond obligations (P-CBO). Kumho Industrial Development, which is going through a workout led by its creditors, has completed a paid-in capital increase of 124 billion won (US\$117 million) recently, too. 30% of the IBK-KStone Partners private equity fund has been sold to Kumho Terminal at a price of 170 billion won (US\$160 million). 

## CORPORATE BOND MARKET

# Crisis Looming Large in Corporate Bond Market



The issue of debentures from now on will hold the key to the security of liquidity on the bond market as a whole.

Capital market participants are paying keen attention to the Tong Yang Group's corporate bond and corporate bill (CP) redemption as the conversion risk lingers on, in spite of the provision of private funds by the founder and the company's decision to dispose of Tong Yang Power.

Some experts are even mentioning the possibility of a significant disaster in October in the corporate bond market. Approximately 436 billion won (US\$406.4 million) worth of debentures come to maturity next month in vulnerable sectors like construction, shipbuilding, and shipping. Although the government is providing assistance for the companies in the industries, they are heavily concerned about a labeling effect.

According to financial industry sources, 4.81 trillion won (US\$4.483 billion) and 5.3 trillion won (US\$4.94 billion) worth of debentures mature in October this year for Hanwha Investment & Securities and Shinhan Investment Corporation, respectively. The amount is larger than the 4.1 trillion won (US\$3.8 billion) and 3.6 trillion won (US\$3.4 billion) amounts of the previous month.

The conversion risk triggered by

the Tong Yang Group is already putting heavy pressure on the market. Five affiliates of the group have issued debentures and CPs worth 2.3498 trillion won (US\$2.1900 billion) in total. Corporate bonds account for 1.9165 trillion won (US\$1.7862 billion) of it, and CPs and certificates of deposit (CD) represent 432.4 billion won (US\$401.7 million) of it, 624.1 billion won (US\$581.7 million) worth of CPs and the like coming to maturity within this year. In particular, the maturity amount for October is no less than 320.9 billion won (US\$299.1 million).

Experts are predicting that the issue of debentures from now on will hold the key to the security of liquidity on the part of the Tong Yang Group and the bond market as a whole. Tong Yang Securities, in the meantime, has indefinitely postponed the issue of 65 billion won (US\$60 million) in corporate bonds. "If Tong Yang fails at the redemption at maturity, the stagnation in the low-grade corporate bond market will get even worse," said Hyundai Securities research analyst Shin Eol.


Under the circumstances, many companies are sparing themselves. A total of 12 companies have signed lead management contracts but have yet to carry out demand predictions. They are divided into the AAA grade of NH Financial Holding, Woori Financial Group and POSCO; the AA grade of Heungkuk Life Insurance, SK E&S, and Meritz Capital; the A grade of KDB Life Insurance, Hyundai Dymos, Nexen Tire, Hansol Paper, and Hyosung; and the BBB grade of Tong Yang Cement.

Pessimists mention the deteriorating

funding conditions of companies with low credit ratings in the vulnerable sectors as the ground of their negative forecasts. As of the end of August, the total amount of debenture issue amounted to 3.575 trillion won (US\$3.321 billion), and 2.8 trillion won (US\$2.6 billion) of it, or 78%, was in the AA or higher grade.

The thing is, the other 22% is being shunned by investors. The outstanding rate increased 12.6 percentage points to 31.9% in the wake of the demand prediction for the second week of this month. "Low-credit companies' prospects are getting bleaker and bleaker these days," said Lim Jeong-min, researcher at Woori Investment & Securities, adding, "This means that those with a BBB or lower credit rating are likely to face harsher funding conditions."

eTrade Securities analyst Oh Dong-seok echoed the sentiment by saying, "Not a few conglomerates, including STX, have been losing the trust of the market this year and things could further deteriorate with time." He explained, "Besides, 47 trillion won worth of bonds come to maturity next year to pose a greater burden."

Another concern is that the government's countermeasures are not doing the trick. Up to this moment, only two companies -- Halla Construction and Hyundai Merchant Marine -- have turned in their applications for the measures. The low participation rate is due to a labeling effect. In the case of conversion issue support, the beneficiary has to sign an MOU with its major creditor bank and carry out restructuring through the disposal of its assets and subsidiaries. 

## REGULATION ON CONGLOMERATES

# FTC Chief Urges Strengthening Rules on Industrial, Financial Capital Separation



“Korea needs to strengthen the stance on separating industrial and financial capital to prevent Chaebol owners from using banks and other financial affiliates as their private cash boxes,” said the head of the Fair Trade Commission (FTC) on October 13.

FTC Chairman Noh Dae-lae made the remark, saying that such a need is growing as shown in the aftermath of the Tong Yang Group scandal, which was recently accused of engaging in financial fraud and other illegal activities to secure money for its cash-strapped affiliates.

Shin Je-yoon, chairman of the Financial Services Commission, said “I will make sure Tong Yang Group’s majority shareholders take responsibility for the recent turmoil of the group.”

“The consistent principle underlying corporate restructuring has been that majority stakeholders take responsibility and protect innocent victims,” Chairman Shin told reporters. The chief of the regulator added, “I am also willing to meet with individual investors who bought commercial paper issued by Tong Yang Group’s subsidiaries.” His comment refers to the nationwide defaults on credit card payments in 2004 and the debacle regarding the LIG Group’s commercial

paper, in which majority stakeholders were held accountable.

As for some other cash-strapped conglomerates, chairman Shin said, “The government executes restructuring in accordance with capitalism and the rule of law.” Therefore, “the government cannot determine either to stifle or keep a company that still runs a business beforehand.” He said, “Corporate restructuring is entirely left to the hands of the market and creditors, and in this regard, Tong Yang Group’s fate has been determined by the market.”

On October 10, following a meeting of cabinet members and also prior to his comment, Chairman Shin and Choi Soohyun, governor of the Financial Supervisory Service (FSS), discussed measures to deal with the embattled Tong Yang Group with Chung Hong-won, prime minister, and Hyun Oh-seok, deputy prime minister and finance minister.

The FSS has decided to thoroughly examine Hyun Jae-hyun, chairman of Tong Yang Group, and his family regarding the insolvency of the Group’s affiliates, and track down his hidden assets, with the help of the investigative authorities.

Five affiliates of Tong Yang have been placed under court receivership after the default by failing to pay for debts of around 110 billion won (US\$102.7 million). The business group is the 38th largest conglomerate in Korea.

“The lesson that we have learned from the Tong Yang scandal is that we should strengthen the separation of financial capital and the industrial capital,”

Noh said in an interview with a news agency.

Even now, the Korean government places some restrictions on the ability for industrial capital to own stakes in financial institutions in order to make it hard for Chaebol to take advantage of their financial affiliates as private cash boxes. The rule was a little bit eased in 2009 in order to help domestic financial institutions improve their competitiveness by using industrial capital, but the Tong Yang scandal has recently bolstered the case to toughen the rule.

“In order to prevent one affiliate’s risk from spreading to another, it is necessary to improve the current holding company system, through which we should strengthen the mechanism to separate the financial business and industrial business,” Noh said, adding, “Of course, we need to have coordination and consultation with financial authorities and the National Assembly on the matter.”

The industrial sector, however, has argued that such a separation could leave not a few companies easily exposed to



Floor leader Choi Kyung-hwan of the Saenuri Party expressed a negative view on separation between financial and commercial.



M&As by foreign capital, weakening the competitiveness of Korea's economy.

Meanwhile, the Saenuri Party's Floor Leader Choi Kyung-hwan expressed a negative view on the party being convinced, after the Tong Yang Securities situation, that a law revision is necessary to enforce the banking and commerce separation and expand eligibility screenings for major shareholders.

At the luncheon discussion in Seoul on October 11, Choi dismissed the party's opinion to enforce the separation into the second financial circles such as securities and insurance, saying, "There is not a single country in the world to have expanded the separation to the second financial circles."

He drew a line about applying eligibility screenings of major shareholders to the second financial circles as well. He suggested problems such as vice president Lee Hye-kyung of Tong Yang Group withdrawing 600 million won (US\$559,000) from a stock account right before the court receivership as not a matter of shareholder eligibility, but of criminal penalty.

With the party leader expressing such an opinion, the prediction that the Tong Yang incident will accelerate the discussion of the law related to the management structure of the second financial circles turns out to be incorrect.

Instead, Choi announced, "Some regulations have been alleviated when

the Capital Market Act was amended in 2009," adding, "These [financial investment industry] regulations will be strengthened through an enforcement ordinance."

Regarding the issue of enacting special legislation for Tong Yang Securities victims, he showed a cautious attitude, saying, "It is not right for the political circle to step forward." This special legislation for saving bank investment victims has a history of being first drafted and passed by the National Policy Committee in 2011 for the subordinated security bond investors of Busan Savings Bank, but foundered when former president Lee Myung-bak exercised his veto. **BR**

## ELS REGULATION

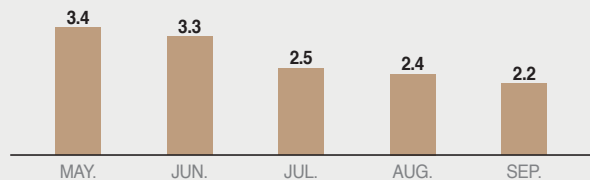
### Financial Authorities Trying to Put ELS Assets under Separate Control

The Financial Supervisory Service (FSS) is working on new regulations on equity-linked security (ELS) products in an attempt to dispel the concerns of investors in the wake of the Tong Yang Group's recent filing for court receivership.

Still, some experts are pointing out that the financial authorities are going to far while disregarding the high-risk nature of ELS. In fact, the FSS has already cancelled the preparation of similar regulations last year due to the lack of efficacy. It is coming up with the same measures again at this time to shirk its responsibility. In 2012, the FSS discussed tighter regulations on ELS products while revising the Financial Investment Services and Capital Markets Act to restrict Tong Yang Securities' sale of corporate bonds and commercial papers affiliated with the group.

"At that time, the agency mulled over various ways for investor protection such as the preferential payment right of pension insurances," said an industry insider, adding, "However, the regulations were not enacted because of the counterarguments that the regulations could make the design of ELS products difficult and cause stock firms' profitability to deteriorate."

#### AMOUNT OF ELS ISSUED (UNIT: TRILLION WON)



SOURCE: KOREA SECURITIES DEPOSITORY

Trust accounts and consignment sales, in which investors' ownership of investments is recognized, allow them to get back their investments even when the stock companies go bankrupt. ELS is not so because the investors and securities firms share the profits. What the FSS is trying to do is to protect ELS assets with an exception so as to prevent the damage from the recent Tong Yang Group scandal from spreading. The agency recently ordered the special inspection team to separate the ELS assets into an additional account and Tong Yang Securities separated the ELS-related operating assets from its own assets. The securities have been deposited into the Korea Securities Depository (KSD) and the deposits into the Korea Securities Finance Corporation.

The new regulations have resulted in split opinions in the agency itself. "When ELS assets are under the control of the KSD, investors can be protected even if the securities firms go wrong," said an official, claiming that repurchase is a disadvantage. Another one explained, "This is the time to repurchase Tong Yang's ELS and it will be more advantageous even allowing for the 5% repurchase fee."

## UNION OF EURASIAN NATIONS

# Korean President Park Proposes “Silk Road Express” to Connect Eurasian Nations, Facilitate Exchanges

President Park Geun-hye delivers a speech during an international conference on Eurasian cooperation held at the Shilla Hotel in Seoul on the morning of October 18.

**K**orean President Park Geun-hye called for collective efforts to connect Eurasian countries more closely by linking roads and railways to realize what she called the “Silk Road Express” running from South Korea to Europe via North Korea, Russia, and China.

On October 18, President Park made the proposal in an international conference on Eurasian cooperation held in Seoul. She pointed out that the Eurasian continent has the potential to become a huge single market that could rival the European Union if economies in the continent are tied more closely by making a more favorable environment through freer exchanges.

Park went on to say, “Building a new Eurasia is not just an ideal nor a dream. It is a realizable goal,” adding, “A new Eurasia will provide us with new opportunities for investment and jobs.”

As a way to realize the goal, she


suggested to make the “Silk Road Express” starting from South Korea’s Busan city through North Korea, Russia, China, Central Asia, and Europe, restoring the disconnected distribution networks across Eurasia to overcome physical barriers hindering their exchanges.

In fact, President Park has shown special interest in the railroad idea. When she met with Russian President Vladimir Putin at the G20 summit meeting in Moscow last month, she said she has always dreamed of such a transnational railway. It is expected that Park will bring up the issue when Putin visits South Korea next month.

President Park also called for establishing energy networks to connect energy infrastructure such as power networks and gas and oil pipelines among Eurasian nations, by saying, “We should push for Eurasian energy cooperation in a win-win manner, including joint developments of shale gas in China as well

as oil and gas in East Siberia.” Earlier at the APEC summit in Bali, Indonesia on October 7, Russian President Vladimir Putin also said that he might consider the construction of a gas pipeline beneath the East Sea in order to export Russian natural gas to South Korea.

President Park didn’t forget to mention that such visions would be realized only when the peace in the region is secured by saying, “Threats to peace and security are the biggest barrier to economic, trade, and cultural exchanges among Eurasian countries, which should be solved in advance.”

Park added that South Korea will work hard to promote peace on the divided Korean Peninsula and in the region through her two trademark foreign policies, the Korean Peninsula Trust Process and Northeast Asia Peace and Cooperation Initiatives, which accentuate a step-by-step trust-building process among related parties. 

## KOREA-INDONESIA DEALS

# Korea, Indonesia Agree to Sign CEPA with Arrangement of US\$10 Bil. Currency Swap



Korean President Park Geun-hye and Indonesian President Susilo Bambang Yudhoyono

At a press conference held at Merdeka Palace in Jakarta on October 12, Korean President Park Geun-hye and Indonesian President Susilo Bambang Yudhoyono unveiled an agreement to finalize negotiations on the Comprehensive Economic Partnership Agreement (CEPA) and conclude it within this year.

Korea began negotiations on the CEPA in July 2012 with the largest economy and the most populous country among the ASEAN nations, but there has been little progress since then. The CEPA is intended to boost trade and strengthen overall economic cooperation. If the deal is clinched, it will be the first Free Trade Agreement (FTA) for the Park administration.

Through the CEPA, the two presidents agreed to increase annual trade volume to US\$50 billion by 2015 and

US\$100 billion by 2020. Last year, Korea-Indonesia trade volume was about US\$30 billion.

It is anticipated that CEPA's finalization will accelerate the economic and industrial exchange between the two countries. The Korean government already has economic ties with Indonesia through the ASEAN FTA, but the agreement is not comprehensive. Most of the major exports, including finished cars, are excluded from the concession list. In fact, Korean vehicles only represent 1-2% of the Indonesian auto market, while Japanese autos constitute approximately 90% of the market.


In addition, Korea and Indonesia signed an agreement for a won-rupiah currency swap worth US\$10 billion. The agreement was made between South Korea's Finance Minister Hyun Oh-seok

and his Indonesian counterpart during a meeting in Washington on September 12 (local time). The two financial ministers were there to attend the annual meetings of the International Monetary Fund and the World Bank.

The agreement, for which Indonesia asked Korea, can be interpreted as a countermeasure against the inevitable tapering of US monetary easing. With uncertainties over US monetary tapering, emerging economies including Indonesia have been struggling to curb excessive cross-border capital outflow and currency weaknesses. Consequently, the currency swap is now expected to help Indonesia reduce its vulnerability to capital outflow. The two countries also agreed to use the currency swap line in settling payments linked to bilateral trade, reducing their dependence on the US dollar.

As for Korea, the agreement will lend support to the country's growing role as a regional fiscal safety net. The meeting of finance ministers and central bank heads of G-20 countries in Washington on October 12 (local time) decided to hold a G-20 conference in Seoul in December to discuss how to enhance regional fiscal arrangements.

Korea's finance ministry said that the central banks of the two nations will officially sign the swap deal "sooner or later." The currency swap line will expire in three years, and it could be renewed if both sides agree.

Earlier this year, Indonesia signed currency swap deals of US\$15 billion with China and US\$12 billion with Japan. 



South Korean President Park Geun-hye and Philippine President Benigno Aquino III shake hands ahead of a summit in Seoul on October 17.



## KOREA-PHILIPPINE SUMMIT

# Korea, Philippines Agree to Strengthen Corporation in Defense, Economy

**K**orean President Park Geun-hye and Philippine President Benigno Aquino III agreed on October 17 to cooperate on strengthening economic and military ties between the two countries.

At the meeting between two leaders President Park said, "I am anticipating that the two nations will go ahead with an even more solid relationship for mutual cooperation," adding, "The Philippines is drawing international attention as a member of the VIP nations for its firm economic growth in recent years." VIP is a term to refer to three emerging Southeast Asian economies -- Vietnam, Indonesia, and the Philippines.


After signing an MOU to provide

US\$80 million in an Economic Development Cooperation Fund (EDCF) loan to the Philippines to build flood-control facilities and schools in the central region of Pampanga, Park stressed how close the two countries have been so far, saying the Philippines is the first Southeast Asian nation to open diplomatic relations with South Korea, and that it helped South Korea by sending a total of 7,420 Filipino troops in the 1950-53 Korean War. Park promised to actively provide official development assistance to the Philippines for its sustainable development.

The two leaders also signed a memorandum of understanding for defense sector cooperation. President Park expressed

gratitude to the Philippine President for selecting the FA-50 in the country's fighter jet program, hoping the two countries will sign the contract soon. Aquino said he will try to ensure that defense industry cooperation with South Korea can go smoothly.

South Korea has been in negotiations with the Philippines on a deal to export a dozen Korean-made supersonic trainer jet FA-50 fighters.

President Aquino arrived in Seoul in the same day for a two-day state visit. It is his first time to visit South Korea since taking office in June 2010, and the first state by a foreign leader to Korea under the Park Geun-hye government. 



The prominent Northeast Asia Trade Tower dominates Songdo's downtown area, and is next to Songdo Convensia, the Riverstone shopping center, and the Sheraton Incheon Hotel.

## KOREAN OFFICES OF WORLD BANK

# World Bank Will Open 2 Offices in Korea This Year

**T**he World Bank and the Korean government agreed to move ahead with the plan to establish World Bank offices in Korea by the end of this year.

Jim Yong Kim, president of the World Bank, and Hyun Oh-seok, Korea's deputy prime minister and finance minister, met on the sidelines of the annual meeting of the International Monetary Fund and World Bank in Washington DC on October 10 (local time) and agreed to establish a head office in the Incheon Free Economic Zone in Songdo and a liaison office in Seoul.

Previously in October last year, the World Bank and the Korean government had announced a plan to establish a World Bank office in Korea.

The World Bank will map out a

schedule for opening the office after Korea's National Assembly approves of granting tax benefits.

"South Korea's experience in sustainable development and its transition to a dynamic knowledge economy provides lessons that can benefit many other developing countries," said Kim, president of the World Bank.

Responding to Kim's statement, Deputy Prime Minister Hyun said, "The World Bank Korea Office will enhance our partnership enormously. Through its remarkable economic transformation, Korea understands the policy challenges that developing countries face. With our expanded engagement in the World Bank Group's new offices in Korea, we stand ready to share the knowledge and

know-how we have gained over the past decades to guide others."

Incheon city plans to provide every necessary support for the office to open in time for the opening of the Secretariat of the Green Climate Fund on December 4.

Songdo of Incheon city, which succeeded in bringing in the secretariat of the Green Climate Fund last year, is placing the foundation to become an international financial city with the attraction of the main office of the World Bank.

The prominent Northeast Asia Trade Tower dominates Songdo's downtown area, and is next to Songdo Convensia, the Riverstone shopping center, and the Sheraton Incheon Hotel. 

## KOREA VENTURE CAPITAL ASSOCIATION

# More Support Measures Needed for Private-sector Players' Greater Participation



Lee Jong-gap, Chairman of Korea Venture Capital Association

Last year's new venture capital investment was 1.2333 trillion won (US\$1.1618 billion), and the amount of the new investment associations reached 747.7 billion won (US\$704.3 million). This year, however, new investment associations are expected to go up significantly.

Korea Venture Capital Association Chairman Lee Jong-gap, who was elected to serve consecutive terms this year, said in an exclusive interview with BusinessKorea, "We will be able to meet the goal of 1.4 trillion won (US\$1.3 billion) on the new investment association side and 1.5 trillion won (US\$1.4 billion) on the new venture capital investment side thanks to the policies of the Creative Economy of the Park Geun Hye administration."

He said that the venture capital industry is thinking highly of the government's efforts for the revitalization of the

venture investment market, proposing that the venture capital industry needs a control tower that will pursue consistent venture capital policy and prevent inefficiency. The following are excerpts from the interview with Chairman Lee.

**The Park Geun-hye administration is trying to boost venture capital investment by means of tax incentives and deregulation. What do you think is the roadblock for the industry to respond to the call?**

The venture capital industry is thinking highly of the government's efforts for the revitalization of the venture investment market by means of the Future Creation Fund and the Growth Ladder Fund. Many in the industry are expecting that the endeavor will result in positive momentum for them.

Even so, there are still some problems, such as the different methods of legal application for the same investment functions, and different demands from the authorities concerned. Specifically, investment in small venture firms is governed by various laws like the Small and Medium-sized Enterprise Establishment Act, the Act on Special Measures for the Promotion of Venture Businesses, the Specialized Credit Financial Business Act, and the Financial Investment Services and Capital Markets Act.

Therefore, we need a sort of control tower that will pursue consistent venture capital policy and prevent inefficiency.

I believe that the barriers between the fields of investment – for example, start-up investment, venture investment, angel investment, private equity investment and tech-oriented investment – will be torn down then.

**The venture capital industry has claimed that commercial financial institutions like banks and insurers take part in the sector, pointing out that the pool of investors has been too shallow. What is the current status?**

According to the Financial Services Commission's investment finance revitalization measures for venture and small firms that was announced in September this year, the FSC is planning to let banks and insurers participate in the sector by loosening related requirements.

It is currently moving to exempt investors accounting for less than 30% of a venture or small firm investment association from the obligation of reporting, while letting them be incorporated into the subsidiary. Once the plan is implemented, banks and insurers will find more incentives to make an investment in venture funds.

Still, there should be more support measures for such private-sector players' greater participation. First of all, institutional investors and corporations investing in venture funds should be free from taxation on their gains from stock transfers, like they were before the revision to the enforcement ordinance of the



Special Tax Treatment Control Act in 2002. In addition, the Detailed Regulation on Supervision of Banking Business needs to be revised as well, because, in the regulation, venture funds are categorized into non-marketable equity securities to be subject to weighted risk values. If investment in venture funds is deemed as an acquisition of risky securities, no investor will find it attractive. Also, the IFRS fair value should be allowed to be used as the acquisition cost by means of new business practices in the framework of reasonable accounting standards that allow for the characteristics of the venture capital industry.

**It has been pointed out that venture investment in Korea is highly dependent on public funds such as the Korea Finance Corporation (KoFC) and funds of funds, and the government is busy increasing the private investment record by using matching funds. What do you think?**

Venture investment has to be expanded to be on par with those in advanced economies if venture firms and small and mid-sized enterprises (SMEs) will be able to play a leading role in the creative economy. In this context, funds of funds and the KoFC have assumed a very important role since their first day, increasing their investment in start-up companies and making up for past market failures.

The venture investment market has high uncertainties in nature, and thus private investment cannot but be limited. The KoFC and funds of funds have made a great contribution there by attracting private-sector investors. There is no doubt that they have played a critical role in its rapid growth until now.

Our ultimate goal is to establish a venture and start-up investment system led by the private sector and institutional investors. Until then, the contribution

and support of public funds have to continue for the stable growth of the local venture industry. The attraction of private investors led by public funds is still essential, and thus the public funds' presence needs to be considered as a kind of necessary step for the eventual independence of the venture capital industry, rather than something to be criticized.

**There are some people saying that Korea needs to take a leaf from the venture ecosystem of Israel. What is your opinion?**

Israel's public education fostering creativity and the social atmosphere favorable for start-up entrepreneurship are definitely worthy of praise. However, a blind benchmarking of its venture industry ecosystem is not an answer, because Korea's social structure and corporate culture are different from those of Israel.

Korea's economic growth has been led by big businesses and SMEs, and venture firms have played an auxiliary role during the course. However, Israel has developed its economy without global enterprises. Therefore, their policy and systems should be different.

The venture capital industry of Korea has been grown mainly by the government's support measures, and its dependence upon public funds is still high. Although it is true that government intervention needs to be reduced with time, I believe that the government still has a role to play, until Korea's venture investment market gets on track.

**What is the size of the new venture capital investment for this year, and what is its ratio to the financing side?**

As of the end of September this year, new venture capital investment reached 984.2 billion won [US\$927.1 million], which is the highest Q1-to-Q3 amount


since 2001. The amount of new investment associations, which is a yardstick for future investment estimates, has consistently increased to 950.6 billion won [US\$895.4 million] during the same period.

However, the sizes are still unsatisfactory when compared to bank loans, and this is why we need more incentives and support for the government's investment expansion plans to bear fruit.

As of the end of the third quarter, local SMEs' combined bank loan balance amounted to 472 trillion won [US\$444 billion]. The amount increased by 25 trillion won [US\$23 billion] during the nine months of this year. Meanwhile, the venture capital investment balance was 4.2 trillion won [US\$4.2 billion], less than 1% of the loan balance.

**Please explain about last year's venture capital investment results and the forecast for this year.**

New venture capital investment was 1.2333 trillion won [US\$1.1618 billion] last year. Although it decreased by 2.2%, or 27.5 billion won [US\$25.9 million], from a year earlier, the size surpassed the one trillion won mark for three consecutive years.

The amount of the new investment associations reached 747.7 billion won [US\$704.3 million] last year, to fall slightly short of expectations. However, it is expected to go up significantly, thanks to the funds of funds, the KoFC, and the National Pension Fund, as well as the government's Future Creation and Growth Ladder Funds. Under the circumstances, we are expecting that we will be able to meet the goal of 1.4 trillion won [US\$1.3 billion] on the new investment association side and 1.5 trillion won [US\$1.4 billion] on the new venture capital investment side. 

## BUDGET FOR CREATIVE ECONOMY

# Reaching 2.55 Trillion Won with Software Field Getting 24%



The Ministry of Science, ICT and Future Planning (MSIP)'s budget for next year for the pursuit of a creative economy is 13.5746 trillion won (US\$12.6117 billion).

Funding for a creative economy, research & development (R&D), and information and communications technology (ICT) increased 5.8% compared to this year. On the other hand, funding for events such as the International Telecommunication Union Plenipotentiary Conference to be held in Korea next year has been cut drastically, requiring additional review.

On September 29, it has been reported

that MSIP's budget for next year is 13.5746 trillion won (US\$12.6117 billion), which is 5.8% more than this year's 12.8332 trillion won (US\$11.9229 billion). This is higher than the total increase rate (4.6%) of the government.

First, the implementation funds for next year's creative economy have jumped 11.1% from this year's 2.2975 trillion won (US\$2.1345 billion) to 2.5514 trillion won (US\$2.3704 billion).

Funding has increased for major business areas such as the software professional human resources nurturing project (from 15 billion won to 17 billion, or from US\$13.9 million to

US\$15.8 million), next generation Internet business competitiveness enforcement project (from 5.2 billion won to 12.5 billion won, or from US\$4.8 million to US\$11.6 million), Digital Content Korea fund creation (new, 50 billion won, US\$46.4 million), social issue solution-based technology development project (new, 9 billion won, US\$8.4 million) and basic research result application support business (from 6.6 billion to 17.9 billion won, or US\$6.1 million to US\$16.6 billion).

In fact, funds for building a foundation for the creative economy (4.5 billion won, US\$4.18 million) and a providing



The Federation of Korean Industries holds the Special Committee on Creative Economy on July 10 to analyze the government's creative economy policy.

a comprehensive support system for creative economy (6.9 billion won, US\$6.4 million) have been newly added.

MSIP will begin full-scale work on combining its two major areas of scientific technology and ICT to open new business industries and solve the pending social problems.

First, it will pursue a project creating a new industry and developing new promising fusion items to which 10.5 billion won (US\$9.76 million) has been invested. R&D and technical commercialization will be supported for the new business development, to speed up the provision of new products and services. A group of experts will select fusion assignments and continuously support technical commercialization processes such as post R&D, production, and start-ups.

Projects for solving pending social problems will provide solutions for common national issues such as toxic chemicals, child and teen obesity, and cancer.

The government's attempt to break their own departmental barriers to solve social problems based on R&D is shown in its joint planning research support project, in which the MSIP will be in charge of project management and negotiations.

Also, an additional 322 billion won (US\$300 million) will be distributed to space technology to be used in products like the development of a Korean launch vehicle (240 billion won, US\$223 million). Basic research for individual and group projects will be supported to the tune of 662.6 billion won (US\$616.7 million).

The international scientific business belt saw a huge increase in its budget from this year's 75.1 billion won (US\$69.9 million) to 180 billion won (US\$167 million) next year, with the inclusion of its site purchasing cost.

The development of heavy ion accelerator project will be sped up with an additional funding of 60 billion won (US\$56 million).

The budget for government-funded research institutes will increase 106.4 billion won (US\$99.0 million) to a total of 2.7011 trillion won (US\$2.5135 billion). In fact, the research funds for these institutes in cooperation with small and mid-size businesses will jump sharply from 69.9 billion won (US\$65.0 million) to 113.3 billion won (US\$105.4 million). Joint research funds among the institutions will jump from 18.7 billion won (US\$17.4 million) to 78.7 billion won (US\$73.2 million).


The software and digital content fields will have a 24.2% increased budget of 498.3 billion won (US\$463.7 million). MSIP will pursue the software industry to become a major business in ICT by focusing on original technology development in the software computing industry.

Also, IT venture businesses will see an increase in investments, such as 15 billion won (US\$14.0 million) going to cultivating creative ICT businesses.

However, the budget for the ITU Plenipotentiary Conference will be 14.2 billion won (US\$13.2 million), which is half the amount originally requested.

This conference is the largest international conference, held every four years in the ICT field, where the representatives of 193 ITU member countries participate. It will be held in Busan next October, the second time to be held in Asia.

Initially, this conference was expected to make contributions to securing ICT governmental authority and expanding domestic ICT businesses overseas, but ended up not being funded enough because it was considered an event.

A MSIP representative said, "29 billion won was requested, but with the currently secured budget, it will be difficult to meet the minimum requirements of the ITU, making it impossible to host the conference," and added, "We will try our best to be distributed the necessary budget in the national assembly's budget review process." 



## WON-DOLLAR RATE

# Rapid Won Appreciation to Possibly Affect Export Profitability



The foreign exchange market is back on alert, as the won is appreciating at a rapid pace.

Recently, the won-dollar rate fell to slightly over 1,060 won to 1 dollar, moving close to this year's lowest, 1,050 won to 1 dollar, which was recorded in January. The rapid appreciation is likely to affect exporters' profitability, although the forex market is showing fewer signs of volatility.

According to data published by the Bank of Korea on October 21, the won-dollar rate fell 67.3 won from a quarter ago to 1,074.7 won per US dollar at the end of September. The drop in exchange rate has accelerated since the US Fed's decision to maintain its quantitative easing policy.

On October 21 the rate gained 1.4 won from a day earlier to reach 1,062.2 won, which is approximately 100 won short compared to this year's high at 1,161.4 won on June 24. Market insiders are predicting that the exchange rate is likely to

break the 1,054.7 won mark, this year's high recorded in the first month, sooner or later.

According to experts, this is because foreign funds are flocking to Korea, which is considered to have more robust economic fundamentals than other emerging nations. The central bank's data evidences this. The won's currency appreciation rate vis-à-vis the US dollar amounted to 6.3% in the third quarter, second only to the British pound's 6.4% among G20 member countries. It was followed by the euro (4.0%), Canadian dollar (2.0%), Australian dollar (2.0%), Russian ruble (1.4%), Japanese yen (1.0%), Brazilian real (0.6%), and Chinese yuan (0.2%).

In particular, emerging countries' currencies fell greatly due to the possibility of a reduction in quantitative easing. The Indonesian rupee lost 12.4% while the Argentine peso fell by 7.0%, Indian rupee by 5.1%, Turkish lira by 4.5%, South African rand by 1.5%, and Mexican peso by

1.2%.

In the meantime, the Korean currency's volatility reduced when compared to the previous quarter. The day-to-day fluctuation rate reached 0.37% on average in the third quarter, 0.06 percentage points down from a quarter ago, to become the sixth-lowest in the G20. Brazil, India, and Indonesia recorded 0.85%, 0.79%, and 0.63% during the same period in an opposite trend.

Economists are pointing out that the appreciation of the won could affect the country's export competitiveness in spite of its robust economic fundamentals. "The forex rate is continuing to fall, even though the government has voiced against a rapid decline in the foreign exchange rate," said one of them, adding, "The government would be well advised to pay heed to the situation, because it can lead to deteriorated profitability on the part of exporters and some inflow of speculation funds." **OK**

## INTERNATIONAL TRADE

# Exports, Trade Balance of ICT at Record Highs in 2013



The container port of Busan, Korea's busiest export port and the world's 5th largest as of 2012.

**K**orea's exports in the information and communications technology (ICT) sector and its trade balance posted all-time highs during January-September this year.

The Ministry of Science, ICT and Future Planning (MSIP) announced on October 10 that ICT exports hit a record high of US\$124.88 billion in the period, a 10.4% increase over the same period last year. This has resulted in the biggest trade surplus of US\$65.6 billion, up 17.4% compared to the same period in 2012.

In September, exports of ICT goods recorded US\$15.11 billion, a year-on-year increase of 7.5%, leading to a trade surplus of US\$8.16 billion. Figures for September show the second-highest monthly exports and trade surplus on record, despite a decrease in days of operation stemming from the Chuseok holidays.

Last month, mobile phones, semiconductors, and digital TVs are the main contributors to export surges, while exports of display panels, computers, and peripheral devices decreased.

Exports of cellular phones reached US\$2.23 billion in September, hitting the US\$2 billion mark again in four months. The corresponding figure for smartphones was US\$1.4 billion, up 20.5% from the previous month.

Semiconductor exports increased for the 12th straight month in September, reaching the highest monthly figure at US\$5.41 billion. The increase is attributable to a positive trend in exports of memory chips and system-on-chip (SoC) products. In particular, memory chips recorded a double digit rise in exports (45.9%) for the 7th consecutive month due to an increase in demand for mobile memory chips and a rapid rise in prices for memory chips. The price hike was driven by concerns about the dwindling supply of products arising from a massive fire at SK Hynix's factory in Wuxi, China.

Exports of digital TVs gained 36.2% to reach US\$830 million. Premium products such as smart TVs led the exports of LCD TVs, and UHD TVs introduced in


June also contributed to export expansion.

Display panels inched down 19.1% in exports to hit US\$2.27 billion, owing to weak demand for TVs and a decrease in prices for TV panels. Computers and peripheral devices also edged down 3.5% in exports to reach US\$590 million, owing to the continued slump in the global PC market.

Among countries, outbound shipments to the US, ASEAN countries, and China (including Hong Kong) increased. Exports to China recorded US\$7.78 billion (up 10.3%), followed by US\$2.1 billion to the ASEAN countries (a 27.4% increase), and US\$1.4 billion to the US (up 13.4%). What is noticeable is that China posted an all-time high in exports, accounting for 51.5% of total ICT exports.

In contrast, exports to Japan fell by 18.2% to reach US\$530 million because of the weak yen and sluggish sales of major export items, including semiconductors and mobile phones. Outbound shipments to the EU also dropped 12.3% to post US\$1.22 billion.

Meanwhile, the leading indicator of Korean exports was known on October 10 to stand at 51.9 in Q3 this year, down 3.9 points from the previous quarter. A reading above the benchmark 50 points means that optimists outnumber pessimists.

The indicator was based on a survey conducted jointly by the Korea Trade-Investment Promotion Agency (KOTRA) and the Samsung Economic Research Institute (SERI), targeting 2,336 foreign buyers and local companies' employees residing in foreign countries. 

## SNOWBALLING GOV'T DEBTS

# Korean Gov't Pays 80.2 Bil. Won in Interest in 2013 H1



The National Assembly's administration inspection started on October 14 and will inspect 628 public organizations for the next 20 days.

The Korean government paid around 80 billion won (US\$74.7 million) during the first half of this year in interest on its short-term loans to make up for revenue shortfalls and secure money to cover operating expenses.

According to data submitted to the ruling Saenuri Party's Rep. Lee Hahn-koo on October 14 by the Finance and Strategy Ministry, the government's total interest payment for its short-term loans stood at 80.2 billion won (US\$75.1 million) during the first six months of this year.

The loan amount was up from 13.1 trillion won (US\$12.3 billion) a year earlier, recording the highest in the last five years.

The government paid 60.6 billion won (US\$56.8 million) in interest for loans through the sale of Treasury bills and 19.6 billion won (US\$18.4 million) in interest for loans from the Bank of Korea.

The increase resulted in the government collecting about 10 trillion won (US\$9.4 billion) less in taxes than the first half of last year. The revenue shortfalls have been posing a heavy burden on the government, which now pushes expansion of fiscal spending to boost economic growth.

Meanwhile, the top 30 state-run enterprises also paid 6.8 trillion won (US\$6.3 billion) in interest last year.

Data disclosed on the same day by Rep. Kim Kwan-young of the opposition Democratic Party shows that last year's interest payments made by KEPCO amounted to 2.344 trillion won (US\$2.195 billion) while its debt rose by 12.4 trillion won (US\$11.6 billion) to 95.089 trillion (US\$89.064 billion). The lawmaker calculated that the public power generation company paid as much as 6.4 billion won (US\$6.0 million) a day in interest last year alone.

The Korea Expressway Corporation

incurred an additional debt of 757.2 billion won (US\$708.7 million) last year, and paid 1.017 trillion won (US\$952.6 million) in interest. Its outstanding debt is 25.348 trillion won (US\$23.749 billion). KOGAS and Korea Land & Housing Corporation (LH) paid 2.3 billion won (US\$2.2 million) and 1.9 billion won (US\$1.8 million), respectively, in interest per day.

The state-run companies increased their debt without any hesitation, even while they paid billions won in interest the every day. The debt amount increase of LH was 7.551 trillion won (US\$7.072 billion) last year, followed by the Korea Deposit Insurance Corp. (5.297 trillion won, US\$4.963 billion), KOGAS (4.182 trillion won, US\$3.918 billion), Korea Rail Network Authority (1.773 trillion won, US\$1.661 billion), Korea Water Resources Corp. (1.197 trillion won, US\$1.121 billion), and KORAIL (864.7 billion won, US\$809.9 million). DK



## STOCK MARKET

# Negative Profit Forecasts for Samsung Electronics



Concerns over Samsung Electronics' Q3 earnings are rising, due to the appreciation of the won and sluggish performance on the part of its display and consumer electronics business units.

Some experts are saying that a bigger challenge is waiting in the final quarter of this year and later. With over 75% of its total operating profits being derived from its mobile business, they are forecasting that the maturity of the market and heated competition in it could drag down profitability.

Under the circumstances, a series of securities firms are now adjusting their estimates downward for Samsung Electronics. For example, on September 30, KB Investment & Securities estimated its sales and business profits for Q3 this year at 59.8 trillion won (US\$55.7 billion) and 9.7 trillion won (US\$9.0 billion), respectively. Its previous profit estimate had been 10.2 trillion won (US\$9.5 billion). "The demand increase in the system LSI segment has been below expectations, and its rival TV manufacturers are supply-

ing cheaper products to affect Samsung's profitability in the consumer electronics and display industries," it explained.


Likewise, IM Investment & Securities lowered its operating profit estimate from 10.14 trillion won (US\$9.4 billion) to 9.727 trillion won (US\$9.061 billion). eTrade Securities' figure was found to be 9.37 trillion won (US\$8.72 billion), the lowest among local stock firms. eTrade Securities and HI Investment & Securities (9.549 trillion won, US\$8.895 billion) predicted that Samsung Electronics' operating profits for the third quarter of this year would be less than, or at best similar to, that recorded in the preceding quarter (9.5 trillion won, US\$8.8 billion). In the meantime, Kiwoom Securities gave the highest estimate of 10.305 trillion won (US\$9.591 billion).

However, the news is unlikely to have a significant impact on the market because the negative outlook has already been reflected in the stock price of the company. Nevertheless, the possibility has been raised that foreign investors will turn

their backs on it from the final quarter of this year.

Market insiders have mixed opinions. Hana Daetoo Securities mentioned that uncertainties are still lingering for the IT and Mobile (IM) Division of Samsung, cutting its operating profit estimate for next year from 48.7288 trillion won (US\$45.3481 billion) to 33.7752 trillion won (US\$31.4363 billion). Meanwhile, Hanwha Investment & Securities said, "The IM Division is likely to maintain its profitability, and the entire company is expected to enjoy some recovery in Q4 to make up for the shortage in profits." It maintained the target stock price at 1.9 million won (US\$1,769).

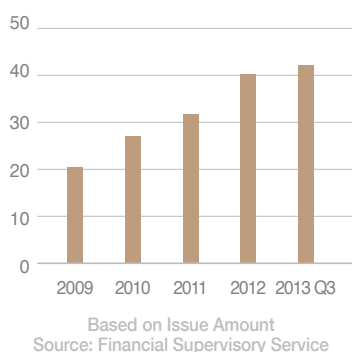
"The operating profit consensus for Samsung Electronics has recently been adjusted to below 10 trillion won from 10.3 trillion won, causing the stock price to move below 1.4 million won," said Seo Won-seok, Korea Investment & Securities research analyst, adding, "In the fourth quarter, the competition in the smart phone market is expected to get even fiercer as Apple releases the iPhones 5S and 5C and the increase in its marketing expenses could deteriorate its profitability to put a brake on its rally."

Many people are agreeing that Samsung's future depends on how it will deal with its lopsided business structure because of its mobile division. There is no doubt that such a heavy dependence will pose a great burden on the business stability of the company. Besides, it is having some difficulties in seeking new profit sources in the wake of the disbanding of the new project development team. 

## PRIVATE EQUITY FUNDS

# Local PEFs Accounting for 90% of M&A Investments in Korea

**LOCAL PEF INVESTMENT  
ON A RAPID RISE(UNIT: TRILLION WON)**




During the first three quarters of this year, private equity funds (PEFs) have made a total investment of 8.6628 trillion won (US\$8.1120 billion). This amount is almost equivalent to the market capitalization of LG Display, 8.6949 trillion won (US\$8.1321 billion).

This year, PEFs have invested or signed contracts to do so in well-known companies. For example, MBK Partners, the largest PEF in Korea, has purchased ING Life Insurance (1.840 trillion won, US\$1.723 billion), Coway (1.1915 trillion won, US\$1.1117 billion), and NEPA (990 billion won, US\$923 million). STIC Investment formed consortia with other PEFs to buy shares of LG Nex1 (420 billion won, US\$392 million) and Dongbu Farm Hannong (328.4 billion won, US\$306.4 million).

Unlike in the past, local PEFs are increasing their presence in the market this year. Until recently, foreign PEFs have led the growth of the market by investing in Korea Exchange Bank, OB Beer, WiniaMando, Haitai Confectionery

& Foods, CJ CGV, Hyundai HCN, Nolbu, Hyundai Rotem, LOEN Entertainment, and many more.

However, things have changed drastically this year. Those by foreign PEFs take up just 9.7% of the total PEF investments completed or signed until the end of the third quarter. At the same time, local PEFs are turning their eyes toward overseas markets, too. MBK Partners have acquired the Japanese coffee company Komeda and are about to take over the Korean subsidiary of ING Life Insurance.

As of the end of September, the combined operating assets of local PEFs reported to the Financial Supervisory Service reached 42.025 trillion won (US\$39.335 billion), with which they could buy 72% of the shares of Hyundai Motor Company. The market capitalization of the automaker is 58.2631 trillion won (US\$54.5343 billion), the second-highest among listed Korean companies. Under the circumstances, many companies are facing a change in ownership paradigm. 



## SAMSUNG'S FINANCIAL ARMS

# Samsung's Financial Subsidiaries Setting Out on Corporate Culture Reform

Samsung Electronics' 44-story headquarters building in Samsung Town, Seocho-gu, Seoul, South Korea. (Photo courtesy of Oskar Alexanderson/Wikimedia Commons)


At 8:00am on September 25, Samsung Group employees' voices were heard through the in-house broadcast of five of its subsidiaries - Samsung Life Insurance, Samsung Fire Insurance, Samsung Card, Samsung Securities, and Samsung Asset Management. The interviewees said that their top-down meetings are blocking communication among themselves, and that they are distracted by the huge number of reports they are ordered to make. An executive member of Samsung mentioned that the tone of the broadcast was different from previous ones, and it sounded like a warming to top management.

During the broadcast that continued for 15 minutes, old practices and customs they will have to do away with to become global leading financial companies were enumerated in detail. Its purpose was to share information about what is wrong with their way of business and to seek solutions.

According to financial industry sources including the Samsung Group itself, the group's subsidiaries in the banking sector are reforming their corporate culture to deal with fast-changing business environments as of late. The group's chairman Lee Kun-hee has pointed out the same thing for years, criticizing financial subsidiaries for their global competitiveness, which is considered to be short of that of Samsung Electronics. The financial subsidiaries are going to send out two more broadcasts concerning their current status within this month. The second one, scheduled for October 16, will present in-depth case studies of global leaders in the financial industry.

"The broadcasts were planned voluntarily by the five subsidiaries," said a high-ranking official of the group, continuing, "These are to deliver some messages in this era when market environments and policy are changing at a rapid pace." One of his peers added, "Many of

the interviewed employees criticized the companies' obsession with formality, and I personally felt a lot of things hearing them say that we need to change the way we do our jobs." New York Life Investment Management CEO John Kim, who is regarded as one of the most successful Korean CEOs in Wall Street, also joined the interview to stress the importance of a fast and transparent decision-making process.

In the mean time, the financial subsidiaries of Samsung Group are suffering from sluggish performance in the current fiscal year. The net profits of Samsung Fire Insurance, Card, and Securities decreased by 24%, 54.2%, and 83.8% each during the period, whereas only Samsung Life Insurance's net profits slightly increased by 2.3% in the first fiscal month of April to June. Under the circumstances, they are feeling the urgent necessity of cost reduction through corporate culture reform. 



## INNOVATION

# KT Transforms Itself into Global ICT Company through BIT Innovation



On September 30, KT president Pyo Hyun-myeong presents the Business & Information System Transformation project to reduce the number of company wired and wireless systems from 136 down to 6.

**K**T is improving its internal information systems. It is looking to complete its Business & Information system Transformation (BIT) project this year, which has been continued for over three years since its merger with KTF. The project will transform the company from a telecoms operator into a global ICT player.

The company held a press conference on September 30 at its main office located in Gwanghwamun and announced the outcome of the project, the goal of which is to reduce the number of its wired and wireless systems from 136 down to 6. Up to that date, its service delivery platform (SDP), enterprise resources planning (ERP), content management system (CMS), business intelligence and data warehousing (BI & DW), wired, and wireless business support systems (BSS) have been integrated as planned. The entire project will be completed once the new operation support system (OSS) is launched in February next year.

"We had very weak IT capabilities at the time of the merger, and we kicked off the BIT project to overcome our limitations," said KT president Pyo Hyun-myeong, adding, "Finally, we have succeeded in building the new systems that

will suit the needs of the market and customers."

In particular, the company is going to enhance its customer-centered management by means of the new BSS established on September 23. It will be utilized to simplify its various billing tables and evidential documents while providing customer counseling in an integrated way. "We are currently reducing the number of calling plans from over 7,000 to 250, which will result in the period of new service development being shortened from longer than three months to within a month," the president continued.

He went on to say, "When the BIT project is completed, our management will be smarter, speedier and more responsible. For example, integrated product consulting will be able to be offered to individual customers and troubleshooting will be made in a one-stop way to improve our sales efficiency and decrease customer complaints."

At the same time, KT unveiled its plan to export the new services building on the BIT project, examples of which include the LTE network and joint system integration (SI) venture establishment in Rwanda. "We will organize our accumulated expertise into the form of

new business models for overseas markets and export them starting next year," president Pyo explained, adding, "As a matter of fact, Australia's Telstra, Malaysia's Celcom and Indonesia's PT Telecom have visited us to take a leaf."

In the meantime, KT announced on September 12 that it was selected as an Industry Group Leader (IGL) of the Dow Jones Sustainability Index (DJSI) for the third consecutive year.

The DJSI World is the world-renowned index drawn up by Dow Jones and Swiss investment assessment company Robeco SAM. The financial outcomes and non-financial elements of more than 2,500 global companies are evaluated to measure the sustainability of each one. The assessment of the non-financial factors includes the transparency of corporate governance, eco-friendly management, and contribution to joint growth and social welfare.

Each year, 24 companies are picked out as the IGL in as many fields. Among Korean corporations, KT was selected as the IGL of the wired and wireless telecoms sector, and Lotte Shopping as its counterpart of the retail sector.

"About 80 wired and wireless telecoms service providers tried to be incorporated into the DJSI World this year but only 10 of them, including KT, British Telecom and Telecom Italia, made it," said Kim Dong-soo, head of the Sustainability Management Center of the Korea Production Center, which is in charge of the DJSI assessment in Korea. He remarked that KT's selection at this time is highly meaningful and will be an opportunity for Korean companies to publicize their excellence in sustainable management. 



Hanhwa Business Jet Airlines CL 300



HAH801 Business Jet Configuration



David YC Chung, Managing Director of Flightrans International Aviation Group.

## FLIGHTRANS JET

# Era of Air Taxi, Private Jet Charters Finally Here

“Currently, private jets owned by Korea’s conglomerates are less than 10 units. Considering demands for businesses in general and VVIP customers, the domestic market for air taxi and private jet charters is expected to grow. Right now, there are also only 50 units operating in Japan. But private jets can be in the limelight as a niche market if the Chinese and Southeast Asian markets are targeted through aggressive marketing,” said David YC Chung, Managing Director of Flightrans Jet, a Fixed Base Operation (FBO) facility at Incheon International Airport.

US-based Flightrans provides a variety of aviation services including aircraft charters for express parcel deliveries, cabin reconfiguration, and FAA training

and testing for pilots, aircraft dispatchers, and A&P mechanics. Managing Director Chung is an expert in FAA training and testing.

Air taxi services and business jet charter services are used by executives for their business trips overseas, professional sports teams for transportation, patients in urgent need, VVIP customers for luxury tour packages, and Hallyu stars for their performances abroad.

The major conglomerates with corporate jets find it hard to keep up with the demands of maintaining their own jets. Maintaining business jets annually costs those large companies more than 50 billion won (US\$47 million) per unit. Therefore, using charter services instead of their own jets when necessary is more

efficient and economical.

For the first time as a domestic business aircraft charter company, Flightrans will offer services in the Southeast Asian markets, starting in November, by drawing on its experiences in air services.

In the US and Europe, air taxi services and private jet charter services targeting VVIP customers are already common. However, the popularity of those services is not confined to those regions. The number of air taxis and business aircraft utilized by people in China, Hong Kong, and Taiwan has exceeded 370 units during the last 10 years. Hence, the company is paying attention to the possibility of business success in potential Asian markets.

Unlike conventional business methods, Flightrans has been employing differentiation strategies. It has been prepared to predict demands of the aviation market, and tried to dominate the market by focusing on the VVIP class. In particular, the company signed a contract for exclusive operation rights in Asia with China’s Hanhwa Business Jet Airlines, and as a result began to fully participate in business jet charter services in the Asian charter markets.

Chung pointed out, “I feel a strong responsibility to develop the domestic airline industry, since the air transport industry is one of the future growth engines.”

## KOREA AEROSPACE INDUSTRIES

# Korea's Only Aircraft Manufacturer Aiming to Be among Top 7 Global Aerospace Companies by 2020



T-50 FLIGHT



SURION FLIGHT



FA-50 FLIGHT

As a leader in the Korean aerospace industry, Korea Aerospace Industries (KAI) is the only domestic aircraft manufacturer and total system integrator that designs and assembles world-class aircraft and satellite systems and provides life cycle support for its products.

The aircraft manufacturer headquartered in Sacheon, Gyeongsang South Province, Korea is running its Sacheon 1 Facility (HQ), Sacheon 2 Facility, Seoul Office, Daejeon R&D Center, and the Sancheong Factory in Korea. It also has offices in Los Angeles, Fort Worth, and Washington DC in the US. Finally, it has an office in Turkey. It has 1,400 R&D experts experienced in the development of fixed and rotary wings.

KAI builds fixed-wing aircraft (e.g. the FA-50 combat aircraft, the T-50

supersonic advanced trainer, the KT-1 basic trainer, and the KC-100 Naraon), rotary-wing aircraft (e.g. the Korean Utility Helicopter Surion), Unmanned Aerial Vehicles (UAVs), and satellites. The company is proceeding with plans to develop KF-X fighters, Light Armed Helicopters (LAHs), and Light Civil Helicopters (LCHs).

On top of that, the Korean company is engaged in all areas of Maintenance, Repair, and Overhaul (MRO) for domestic aircraft, and in projects to develop commercial aircraft. It also manufactures air frames for next-generation large commercial airplanes in strategic partnership with global aerospace companies.

**KFX Aircraft, FA-50 Scheduled to Be Made Public**

The FA-50 was developed by KAI and Lockheed Martin, and has been used as the main trainer jet by the Korea Air Force since 2005. As a true 21st century combat aircraft equipped with radar, and air-to-air and air-to-surface missiles, the FA-50 is perfect for fighter pilot combat training and contributing to the training for elite pilots.

Capable of conducting night flying operations, the FA-50 is becoming the basis for the development of KFX aircraft, helped by the cutting-edge weapon system Tactical Data Links and equipment to protect against precision-guided missiles.

At the Seoul International Aerospace and Defense Exhibition (ADEX) 2013, KAI will display the KFX C-103 and the FA-50 (based on the T-50), which are



considered as models for the KF-X program. It is the first time for the FA-50 to be introduced to the public.

The T-50 family was exported to Indonesia in 2011, and is expected to continue its rapid climb to grab the global advanced jet trainer and attack aircraft market.

### **KT-1 Basic Trainer, First Korean Aircraft Exported Abroad**

The first domestically-developed KT-1 serves as a basic training aircraft for Air Force pilots with the best features and functions among aircraft in the same league. Its stability and reliability were proven with an accident-free flying record and a high operating rate. KT-1 opened a new era of Korea's aircraft exports by penetrating into new overseas markets such as Indonesia, Turkey, and Peru.

Based on technologies for military aircraft, KAI successfully developed a four-seat light aircraft called the KC-100 Naraon, the first civil aircraft that meets global industry standard certification requirements. Currently, the company is trying to develop business jets and mid-sized airplanes in order to enter the commercial aircraft market.

The KUH Surion, jointly developed by KAI and Eurocopter, is a state-of-the-art helicopter that satisfies all of the 7,600 flight test items on a flight test report through 2,700 hours of test flights, including low-altitude flight tests over Alaska. The development of various LAHs for military operations and LCHs for wild-fire containment and airborne patrol is expected to open up new horizons for the domestic helicopter industry. LAHs and LCHs will be unveiled at the exhibition as well.

Based on technologies learned from the development of the KUH Surion, KAI is pushing ahead with plans to develop more economically-feasible small helicopters through small armed and small civil helicopters at the same time. The company will do so in collaboration with the Ministry of National Defense, and the



Ha, Sung Yong President & CEO of KAI

Ministry of Trade, Industry and Energy.

Korea's first RQ-101 Songgolmae (Peregrine Falcon) tactical UAVs developed by KAI have been used for wide area surveillance (WAS), reconnaissance, and target acquisition (TA) for the Republic of Korea Army (ROK Army) since 2001.

The aircraft producer has core technologies for designing and manufacturing of numerous unmanned vehicles, as well as controlling flight tests through research and development. As a developer of the ROK Army's corps-level UAVs, it is leading the era of unmanned airplanes in the future.

KAI is recognized for its world-class technologies and product quality. To take one example, it manufactures and supplies the body of Boeing's Apache attack helicopter, along with the front fuselage and the main wings of Boeing F-15K fighter jets.

As a key partner of world-leading aerospace companies Boeing and Airbus, the Korean firm is responsible for designing, building, and delivering airframes of large airplanes through its participation in international joint projects for next-generation commercial airplanes such as the A-350 and B-787. It is planning to actively seek to expand those projects with proven technologies and capabilities to drive business performance.

### **Maintenance, Repair, and Overhaul**

### **as New Growth Engine**

The development of aircraft is not the only business that KAI is in. The company is moving forward MRO businesses as future core business areas. It provides MRO services for the Super Lynx Mk 99A, the P-3 maritime patrol aircraft, an airborne early warning and control (AEW&C) system, the Lockheed C-130 Hercules, and H-53 helicopters employed by the US navy. It also offers installation services for Forward Looking Infrared (FLIR) cameras on military aircraft. Among MRO businesses, those involving the KT-1, T-50, FA-50, and the KUH Surion both at home and abroad are expected to be future growth engines.

In particular, KAI is the only domestic firm to hold major technologies for satellites that can be commercialized due to its participation in the whole process of developing the body frame of multiple-purpose satellites. It successfully developed the structure of satellite bus subsystems and thrust controllers for the Korea Space Launch Vehicle-1 (KSLV-1), also known as the Naro-1.

The aircraft producer plans to be fully involved in the aerospace business by developing launch vehicles and exporting satellites. By 2020, it aims to be among the top 7 global aerospace companies by recording 10 trillion won in annual sales and breaking into the top 15 of global aerospace company rankings. 

## SAMSUNG'S LISTING IN THE US

# Korean Analysts Think Samsung Electronics' Listing Is Unlikely



The facade of the New York Stock Exchange. Photographed by Luigi Novi.

The Wall Street Journal (WSJ) published a story on October 1 (local time) that Samsung Electronics should consider going public on the New York Stock Exchange in order to open up to foreign investors and boost its stock price. However, many analysts of the Korean stock market believe that its listing would be questionable and meaningless.

The suggestion in the story is attributable to the fact that it is difficult for US investors to buy Samsung shares. The article pointed out, "Americans can invest in KOSPI 200 Exchange Traded Funds (ETF) or Technology Index Funds that include Samsung Electronics. But the possibility of exposure to other risks other than Samsung is too high," adding, "A few active investors trade Samsung shares over-the-counter, but trading is rare. On top of that, there are problems with transparency."

The WSJ article also said that Samsung's listing on the New York Stock Exchange will benefit not only investors but also the company itself.

According to a report by market research firm Bernstein Research, Samsung Electronics recorded the best performance in Q2-Q4 this year, beating Apple in market share. Nevertheless, its stock price fell by 10% compared to December 2012.


Mark Newman, a Hong Kong-based technology analyst with Bernstein Research, commented, "Since it is not easy for foreigners to buy Samsung's shares, trading volume is limited, which holds back the stock."

According to the report, 1.4% of Apple's market capitalization is traded daily, while the corresponding figure for Samsung is only 0.2%.

Mr. Newman remarked, "Taiwan Semiconductor Manufacturing Co.

(TSMC) also sees 0.2% of its market cap get traded each day on the Taiwan Stock Exchange. But TSMC compensates for its weak trading through American Depositary Receipts (ADR) on the New York Stock Exchange."

Korean analysts, on the other hand, doubt the benefit of Samsung's listing on the New York Stock Exchange. A researcher at Korea Investment & Securities Co. noted, "The story about Samsung's issuance of ADRs is not new. I think that it is not necessary, for the company has enough funds. If Samsung is listed in the US, the cost needed to go public and to remain in the stock exchange can exceed the benefits."

On October 1, Samsung Electronics' stock went up for four days in a row in the Korea stock market, since foreign investors purchased shares worth 136.7 billion won (US\$127.5 million). 

## PERFORMANCE OF TOP CONGLOMERATES

# Subsidiaries of Korea's Four Major Business Groups Expected to Show Mixed Annual Results



The top management of the major conglomerates Samsung, Hyundai Motor, SK and LG are getting edgy as the year-end settlement of accounts and promotion screening for 2014 are drawing near. Although the business performance does not tell everything about their capabilities, it cannot be underestimated, because the account settlement data has much to do with the external image of each business group and its share price.

According to market sources, assuming a cumulative performance of up to the third quarter, executives of Samsung Electronics, Samsung Electro-Mechanics, and Cheil Worldwide are expected to get a more positive review this year than their peers in the other subsidiaries of the Samsung Group. Samsung Electronics increased its sales and operating profits by 16.75% and 41.88% this year, respectively. In addition, it broke the 10 trillion won (US\$9.5 billion) mark in quarterly oper-

ating profits in Q3 for the first time since its inception.


Nevertheless, there are some differences among the business units. The IT and Mobile (IM) Division, which is in charge of the company's smartphone business, is considered the best contributor to the record high sales, whereas the Consumer Electronics (CE) Division fell short of expectations due to the global market slowdown. The IT and Mobile Division recently scouted former Nokia Siemens Networks (NSN) CEO Simon Beresford as its global executive advisor, too. The operating profits of Samsung Electro-Mechanics and Cheil Worldwide are expected to increase 18.08% and 16.20% from a year earlier as well.

Meanwhile, Samsung SDI, Samsung Fine Chemicals, and Samsung Engineering had an unsatisfactory year in 2013. The business profits of the first two fell by 74.95% and 77.13% compared to a year ago, respectively. Samsung Engi-

neering has turned a deficit.

Most of Hyundai Motor Group's subsidiaries are in the same boat. Hyundai Motor Company's profits fell 3.22%, even though it succeeded in raising its annual sales by 6.77%. Kia Motors and Hyundai Steel are likely to record a 13.8% and 29.57% decrease in operating profits, respectively. Hyundai Engineering and Construction is forecast to have increased its figures by 6.68% and 12.28%, despite the adverse market conditions.

In the SK Group, SK Hynix is distinguishing itself. The semiconductor manufacturer recorded a deficit of 297.4 billion won (US\$281.9 million) last year, but is predicted to enjoy 2.5809 trillion won (US\$2.4465 billion) in operating profits this year. Though it ranks fifth on the sales list, it is at the second spot in the group when it comes to business profits. SK Telecom and SK C&C also improved their profitability, but SK Networks and SK are forecast to show a double-digit decline in operating profits year-on-year.

Most of LG Group's subsidiaries improved their profitability in 2013. In particular, LG U+ is estimated to have boosted its profits by 1,805.93%, although the sales increase stands at 3.81%. LG Life Sciences increased its sales by 8.79% and showed a profit turnaround. The profits of LG Display and LG Hausys are expected to be more than double from a year earlier, as well. However, LG Chem and LG International Corporation are likely to have suffered some decreases in sales and business profits alike. 



## RESTRUCTURING OF HYUNDAI MOTORS GROUP

# Hyundai Steel Merges Hysco's Plate Business



The 3rd blast furnace at the Dangjin plant of Hyundai Steel

Hyundai Motor Group's affiliate Hyundai Steel will merge with the cold rolled plate business sector of Hyundai Hysco, another affiliate of the Korean giant motor company. Currently, Hyundai Steel supplies steel sheets to Hyundai Hysco, which processes them into steel sheets used for making cars.

Hyundai Steel and Hyundai Hysco each held a board meeting on October 17, and agreed on the former's taking over the latter's unit of production and sales of cold rolled plates. The ratio of merge is 0.3889584 Hyundai Hysco per 1 Hyundai Steel. The merger will take place on December 31.

Through this merger, Hyundai Steel can unify the steel business from steel molds to cold rolled plates, drastically increasing its competitiveness. Also, by securing stable suppliers such as Hyundai and Kia Motors, the company is expected gain profitability.

Hyundai Steel's integrated steel mill, now equipped with three blast furnaces, is able to produce an annual total of 12

million tons of crude steel. When including its electric furnaces, which can also produce 12 million tons of crude steel, Korea's second largest steel manufacturer would be able to churn out 24 million tons of crude steel a year.

Through the cold rolled plate business merger, Hyundai Steel's sales will jump immediately to 20 trillion won (US\$18.8 billion). Last year, Hyundai Steel's annual sales reached 14 trillion won (US\$13.2 billion). Hyundai Hysco has been supplying about 77% of the plates used for complete vehicles of Hyundai and Kia Motors through its cold rolled plates business.

In addition, the unification of the process, which was divided between Hyundai Steel with heat rolled plates and Hyundai Hysco with cold rolled plates, will be able to eliminate any inefficiency in management, production, and sales.

Also, from a financial point of view, a stable source of profit is being secured to share the burden of repayment expenses. Hyundai Steel has about 11




trillion won (US\$10.3 billion) in debt and has to pay some 300 billion won (US\$282.9 million) in interest per year.

Hyundai Motor Group needs to redeem its investment, too. The group has spent 9.5 trillion won (US\$8.86 billion) on building the three furnaces of Hyundai Steel and invested approximately one trillion won (US\$933 million) in facility expansions of Hyundai Hysco. Most of the profits, however, are being generated by Hyundai Hysco. Therefore, the merger is inevitable for a better financial structure.

Meanwhile, Hyundai Hysco plans to increase its share in the global market by concentrating on the car weight reduction business through steel pipe production such as hot stamping, which is the core part of future automobile competition. It will also focus on the international steel service center business for producing and selling steel materials to the international production facilities of Hyundai and Kia Motors.

This restructuring is, however, somewhat different from the earlier forecast that Hyundai Steel and Hyundai Hysco would merge to finalize the succession of the group and improve the financial structure and profitability of the subsidiaries. Once the two are merged, major shareholders like Hyundai Motor Company, Kia Motors, and group Chairman Chung Mong-koo will have a combined shareholder ratio of 41.2% (estimated by KDB Daewoo Securities), and thus they would have no problem at all with corporate governance. This has to do with the succession of the group.

Anyway, the merger is increasing public interest in Hyundai Motor Group's future plans. 

## SK FAMILY CATASTROPHE

# Chairman, Vice Chairman of SK Group Sentenced to Prison



SK Group Chairman Chey Tae-won (left) and Vice-Chairman Chey Jae-woo (right) hang their heads in shame after being sentenced to prison for embezzlement.

An appeals court upheld the four-year prison term imposed by a lower court for embezzling nearly 50 billion won (US\$46.7 million) of company funds from group affiliates to make personal investments in stock futures and options. The court also overturned the acquittal of SK Group Vice-Chairman Chey Jae-woo, who was similarly charged but found innocent in the lower court. Chey Jae-woo was sentenced to three years and six months in prison and was put under court custody.

The final verdict for the SK case will be decided in the Supreme Court. The results of the investigation of former SK Shipping advisor Kim Won-hong, who was extradited to Korea on September 26, will become an important factor in the final verdict.

“The defendants embezzled funds from SK Group affiliates to fulfill vain and greedy desires. The nature of this crime is extremely offensive,” said the Judge in the ruling of Chairman Chey

and Vice-Chairman Chey, who were charged with embezzlement.

In particular, the reason for overturning the acquittal of Vice-Chairman Chey in a lower court was mainly because his reversal of testimony was not accepted. Vice-Chairman Chey admitted embezzlement in the first trial, but reversed his testimony in the appeals court. He stated that he made a false confession in admitting to colluding with former Benex Investment Chairman Kim Jun-hong to deliver the advance payments of 45 billion won (US\$41 million) from affiliates to the former SK Shipping advisor and the brothers’ stock futures and options investment advisor Kim Jun-hong. He also did not order affiliates to invest in the fund.

However, the court decided that Vice-Chairman Chey made a false confession to protect his brother, and found the confession from the first trial more trustworthy.

The court sentenced time in prison for Vice-Chairman Chey and put him in immediate court custody, saying that Chey is a flight risk. Vice-Chairman Chey promised not to run and requested release but, it was denied.

The court rejected the Chey brothers’ request to postpone the ruling until former SK Shipping advisor Kim is extradited to Korea.

Based on Kim’s recorded tapes and evidence submitted during the trial process, the court found him untrustworthy.

In October 2008, Chairman Chey was charged with embezzling 49.7 billion won (US\$46.2 million) of advance payments from SK Telecom and SK C&C (embezzlement by Special Criminal Acts). Vice-Chairman Chey was charged for ordering the wiring of these funds to former SK Shipping advisor Kim, who was staying overseas, for investment in stock futures and options.

## ENERGY ECONOMY

# President Park Expressed Her Strong Will for “Creative Energy Economy” in World Energy Congress

President Park Geun-hye declared her vision for promoting the convergence energy industry, which can be defined as a combination between information and communication technology (ICT) and scientific technology, as a growth driver of the creative economy. Specifically, she said that the government would cut the electricity peak by up to one million kilowatts by 2017, while creating 15,000 new jobs and expanding the market size to 3.5 trillion won (US\$3.3 billion).

The President delivered a special address on October 16 at the World Energy Congress (WEC) 2013, which is underway in the EXCO Convention Center in Daegu City. In the speech, she said that the government will take a leading role in the transition of the energy sector into a creative industry in which brilliant ideas, scientific technologies, and ICT are combined.

“Korea has developed itself from an energy-poor country to one with the most advanced energy supply systems and infrastructure in just half a century,” she said, continuing, “The energy industry is one of the fields where our creative economy paradigms can be best expressed, and thus we will share our experience and know-how with the inter-



President Park Geun-hye speaks on energy policy visions for the domestic and international energy industries at the 2013 World Energy Congress in Daegu City, Korea on October 16.



national community in the pursuit of the goal.” The President added, “During the course, we will make a great contribution to the resolution of the energy trilemma the world is facing now.”

She emphasized that a virtuous cycle needs to be made in the industry so that the promotion of the paradigm shift and technological convergence can result in the creation of new jobs and markets. “The Korean government is planning to establish a system in which the electricity saved by way of energy storage systems and energy management systems can be traded in the power market.”

Also, she stressed the necessity of a great transformation in not just busi-

ness models but also global cooperation, policy-making processes, and the administrative framework in order to properly deal with the energy trilemma of energy security, social equity and the minimization of the environmental impact. In this context, she explained that the Korean government will participate more actively in inter-energy industry cooperation among Northeast Asian countries, while making more investments in and providing greater support for the energy infrastructure of less-developed countries.


Her address at the WEC is a reconfirmation of her will to promote the growth of the energy sector based on ICT. The government has already

announced its plan for energy demand management and market creation on the basis of ICT back in August this year.

According to the plan, no less than 120 billion won (US\$113 million) will be invested by 2017 to supply advanced metering infrastructure and energy management systems (EMSs) to 100,000 households nationwide for the expansion of smart grids, and increase the use of EMSs for better utilization of new and renewable energy sources. At the same time, companies are going to be encouraged to make large-scale investments in the smart grid sector so as to create a market with a size of at least 3.5 trillion won (US\$3.3 billion), while a variety of business models are developed so that the saved electricity can be traded on par with the power supplied by the government.

63 billion won (US\$59 million) is earmarked for new ICT-based energy technology development projects during the latter half of this year. In addition, technical demands associated with ICT, examples of which include smart plugs, power consumption reduction techniques, and energy efficiency improvements, are planned to be reflected to R&D projects scheduled for next year, too.

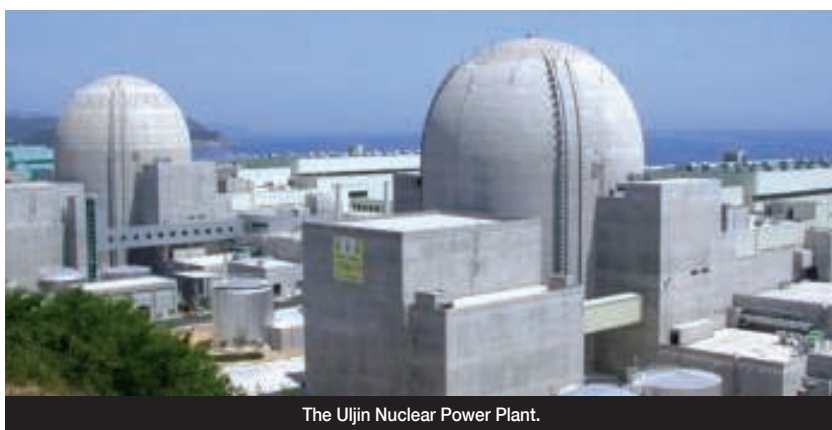
The government and a private-public working group have recently announced the second National Energy Basic Plan, in which they advised that the current energy policy focusing on the supply side concentrates more on the demand management side. In order to do so, the maximization of energy efficiency is a must, and the goal can be met by the utilization of ICT according to the majority of power and IT industry experts.

The International Energy Agency has predicted that the global smart grid market is likely to expand its size to US\$2.988 trillion by 2030, and ICT will contribute greatly to the rapid expansion. Under the circumstances, it is expected that Korea will be able to dominate the market if it does a good job in combining its energy technologies with ICT. 



## ENERGY MIX

# Government Plans to Reduce Ratio of Nuclear Power Generation



The Ulsan Nuclear Power Plant.

The Private-public Working Group for the National Basic Energy Plan made public its draft for a second plan for 2013 to 2035 on October 13. One noteworthy point is that it lowers the ratio of nuclear power generation to between 22% and 29% by 2035.

Given that the preceding plan covering the period of 2008 to 2030, which was set up five years ago, had a target of 41%, this implies that a significant change is ahead when it comes to Korea's energy policy. Some experts are pointing out that the new target is not meaningful, because the current ratio is 26%. However, many people are appreciating it in that it can be an expression of the government's will to not rely heavily on atomic power for the upcoming decades. "The target rate has been adjusted downward from approximately 40% to below 30%, which is undoubtedly a significant turning point in national energy policy," said the Ministry of Trade, Industry and Energy, which is the relevant ministry.

The recommendation for the downward revision is based on the declining social acceptance of nuclear power gen-

eration as of late. In fact, atomic power is the most economical and eco-friendly energy source for now. Its generating cost stands at 47.08 won (US\$0.04) per kilowatt-hour (kWh), whereas those of coal and liquefied natural gas (LNG) are as high as 65.1 won (US\$0.06) and 125.2 won (US\$0.12) per kWh, respectively.

Meanwhile, nuclear power plants' greenhouse gas emissions are as low as those of new and renewable energy sources such as wind and solar power. It is this aspect that the previous Lee Myung-bak administration focused on to shore up the role of atomic power in its first basic plan.

However, concerns over the safety of nuclear power generation have been raised since the Fukushima disaster in 2011, and the matter has been compounded with the difficulty of finding sites for the construction of atomic power stations. Under the circumstances, the working group is considering that the nuclear-friendly policy cannot hold any longer.

"We have taken into account not only the economic advantages and eco-friendliness but also the safety and social


acceptance in setting the new target," said Gachon University professor Kim Chang-seop, head of the working group. He continued, "The change in ratio signifies that the general public does not support the nuclear expansion policy any longer."

## Ratio to Be Lowered Below 30%

The revision of the target ratio was one of the hottest-button issues in the working group discussions that continued for the past five months. At first, the group aimed to fix the ratio between 7% and 35%, under the principle of minimizing the social conflicts over the issue. Then, it narrowed the target to 20%-30% by ruling out the below-20% section, which can be achieved by canceling all of the ongoing nuclear power plant construction projects and shutting down some of the atomic power stations in operation, and the over-30% section that can be achieved by means of nuclear power expansion.

The new target range will be reflected in the final plan late this year, when the specific figure will be fixed. Then, the government will reshape its nuclear power roadmap based on the finalized figure, deciding on which old nuclear power plants will be decommissioned, how many new stations will be built down the road, and other details.

## What Will Take the Place of It?

Much attention is being paid to which energy source will take the place of nuclear power with its ratio being limited to below 30%. The working group is predicting that the electric power-to-energy ratio will go up from 19% to 28% between 2013 and 2035, as national power consumption increases by 2.5% on annual average during the period. 

## LOCAL MARKET SATURATION

# Korea's Smartphone Market Forecast for Negative Growth This Year



According to the US market researcher Strategy Analytics (SA) on October 14 (Korean time), this year's domestic smartphone market is expected to decline 14 percent from last year's 30.7 million units to around 26.3 million, making this year the first time for negative growth since 2007 when Apple launched its legendary iPhone in the country.

Sales in the domestic smartphone market, which were just 200,000 units in 2007, has shown explosive growth to reach 6.9 million in 2010, 17.5 million in 2011, and a record-high 30.7 million units last year.

SA said Korea also had the highest level of smartphone ownership in the world last year, owing to rising demand for the handset and faster Internet networks. 67.6 of mobile phone users in the country had smartphones, the highest in the world. The global average was 14.8 percent. In 2011, Korea ranked fourth

with 38.3 percent smartphone ownership.

Strategy Analytics forecast that Korea's smartphone market wavering a little this year would show an upward trend until 2018, but would not break last year's record sales of 30 million mark.

The market researcher also forecast Korea's smartphone market penetration rate would reach 79.5 percent this year, estimating ownership to reach 88.9 percent in 2017, higher than Singapore's 66.5 percent and Hong Kong's 63.6 percent.

### Competition Failure

In the meantime, non-Korean smartphone manufacturers are refraining from entering the Korean market due to local market saturation and the government's subsidy regulations.

With uncertainties increasing in the Korean market, they have canceled their plans to release new models here.

Under the circumstances, Apple is likely to be the only foreign smartphone manufacturer doing business in Korea for a while. For example, Sony was planning to launch its high-end Xperia phones in Korea in the first half of this year, but the plan has been postponed indefinitely after the breakdown of negotiations with local mobile carriers.

The story is exactly the same for Chinese makers that are trying to catch up with Apple and Samsung Electronics in the global market. ZTE launched its five-inch MePhone back in August in the local MVNO market, but sales have been low. "The Korean smart phone market will remain a hard nut to crack unless the abnormal structure led by a handful of manufacturers and mobile carriers is changed," the company pointed out. "The Korean market is currently dominated by Samsung Electronics, and we have no plan to enter the market for the time being," Huawei Korea added, continuing, "The possibility is close to zero in the presence of the subsidy regulations and the supply glut."

Market research firm Strategy Analytics has recently estimated this year's sales volume in the market at 26.3 million units, 14% lower than last year's 30.7 million. The smart phone penetration rate, which is expected to go up to 79.5%, is second to none across the world.

"Even Pantech, which managed to show some performance, is now facing financial difficulties, and this will further deter non-Korean makers from trying to make inroads," said an industry insider. He went on, "It seems that Apple will be the only foreign smartphone maker in Korea for a long while." **OK**



## 5-6 INCH SCREEN WAR

# Triangular Battle among Samsung “Galaxy Note,” LG “Vu 3,” Pantech “VEGA Secret Note”

LG's new flagship smartphone, the LG Vu 3, is designed to compete with Samsung's Galaxy Note 3 in the global smartphone market. LG Electronics enhanced the quality of its Vu 3 by greatly improving the shortcomings of its Optimus Vu 2 in order to dominate the field.

The Vu 3 retains the 4:3 aspect ratio that characterizes the Vu series. Therefore, users can see e-books or websites more easily, since the almost-square 4:3 aspect ratio is similar to the size of A4 paper. The overall length and width of the latest LG “phablet” (a compound word of phone and tablet) are similar to that of its predecessor, but the black frame around the screen is reduced. As a result, the screen size is increased to 5.2 inches, thus allowing people to have more pleasant experiences with a 1280x960 pixel screen resolution.

What is noticeable is that the Vu 3 is LG's first smartphone to have a built-in “Rubberdium pen,” owing to consumer complaints about inconvenience to carry it around separately. The pen is easy to use, since related functions such as the Q Memo, Notebook, and Calendar pop up on the screen as soon as it is pulled out of the cell phone. The tip of the pen is made of rubber, which gives users a good grip for their fingers.

Its quick-view case is another appeal. Unlike conventional flip cases, there is no hole in the cover. The semi-transparent case enables users to see the screen without actually opening the cover. People can check dates, time, voice calls, video calls, or text message

information. If there are any unchecked calls or messages, the number of times is shown next to the related icon.

In the mean time, Pantech released its secret weapon, the VEGA Secret Note, set to climb to the top of the industry. It is noteworthy that Pantech finally added a pen to its smartphone, and thus now able to compete against Samsung and LG.

Pantech held an event called “Media Day” at its Seoul Sangam building on October 10, where it introduced the VEGA Secret Note. This model will be sold by all three domestic mobile providers next week.

The most noticeable difference is the internal writing device called the “V Pen” being featured for the first time. Unlike Samsung Galaxy Note's Wacom push type pen, the VEGA Secret Note uses a touch type pen as in the LG Optimus Vu. When a user takes out the V pen, it activates the pen cover function, which pops up applications related to the pen such as the Mini V Note or Text Action, as well as any other applications previously set by the user. Also, taking out the pen with the smart cover closed will still allow users to take notes on the “Pop Note” feature through a small window on the smart cover.



The VEGA Secret Note has a large 5.9 inch screen, but Pantech uses an improved rear touch function which it first introduced to the domestic market for more convenient use. Using the “Secret Key” with fingerprint technology, users can enjoy better privacy protection features such as a “Secret Box” and “Secret Contacts.” The Secret Box allows users to protect their files with assigned lock patterns (fingerprint, pattern, or password). The Secret Contacts feature allows users to hide any contacts, messages, and/or call history saved on the device and access them through fingerprint confirmation only. Features such as reading Internet pages out loud and playing lossless FLAC sound files have been added as well. The Secret Note also uses the first smartphone USB receiving port feature, so users can send and receive files with other IT devices without using PCs. It uses 3,200mAh batteries which can fully charge in two hours.

## IPAD RETURNS

# Apple Triggers War with Samsung and Microsoft



CEO Tim Cook of Apple introduced the iPad Air and iPad Mini at the New Product Announcement Event held at the Yerba Buena Center for the Arts in San Francisco on October 22 (local time).

The best-selling tablet from Apple, the iPad, has returned with greatly improved resolution and performance.

With Apple announcing the next model iPad, the “November Tablet Wars” among Samsung Electronics, LG Electronics, Google, and Amazon will reach a climax. Unfortunately, Apple has again excluded Korea from the list of countries for the first release.

On October 22 (local time), Apple introduced its 24.6cm (9.7in) iPad Air and the 20.1cm (7.9in) Second Generation iPad Mini with a retina display at the New Product Announcement Event held at the Yerba Buena Center for the Arts in San Francisco.

Both products use Apple’s latest 64BIT A7 processor chip, and support Wi-Fi and LTE. A Retina display and iOS 7 are also included.

The large screen tablet iPad Air is 7.5mm thick and 453g in weight, which is thinner and lighter than the fourth generation iPad (9.4mm and 652g). The iPad Air’s bezel is 43% narrower than the fourth generation iPad, which maintains screen size but reduces product size. Its battery life has been improved to a maximum of 10 hours as well.

The second generation iPad Mini

with a Retina display now has a resolution two times higher than its previous generation. Like the iPad Air, it has a resolution of 2048x1536, which allows nearly 326 pixels per inch (ppi). It supports full-HD video.

As for the prices, the iPad Air for Wi-Fi runs from US\$499 to US\$799 depending on memory, and the second generation iPad Mini for Wi-Fi goes from US\$399 to US\$699. With the announcement of the new product, Apple cut down the price for its original iPad Mini 16GB to US\$299.

Other than these iPad products, Apple also introduced a new MacBook Pro and a desktop Mac Pro, and released OSX Mavericks, the latest OS upgrade for Mac, for free. From the software department, a new business paradigm based on the cloud, called iWork, was released for free as well.

Apple’s free release of the OS is interpreted by some industry watchers as an announcement of war against the software giant Microsoft, which means the main character of the event is not the new iPads but Apple’s policy on software. Apple’s CEO Tim Cook said at the event, “Microsoft Office is priced at 99 dollars, but our iWork is free.” The New York Times reported, “Apple’s office applications have not given much impact on Microsoft Office, but the situation could be changed if they are provided free.”

Apple will be releasing the first round of iPad Air models starting on the first of next month and second generation iPad Minis around the end of next month, in silver and space grey. However, unlike last year with the iPad Mini, Korea will not be a part of the first release. From


Asia, Japan and China have been chosen for the first release of the Wi-Fi models.

With the addition of new iPad models, the world’s tablet market competition will reach its peak in November. In fact, these tablet wars are coming down to Korea’s Samsung and LG Electronics versus the US’s Apple, Google, and Amazon.

The highly competitive 17.8-20.3 cm (7-8 in) tablet market is waiting to see how the other products catch up with the second generation iPad Mini’s reign. Apple showed a reduction in tablet sales in Q2 to 14.6 million, but still ranked first in the world market with a 29.2% share, powered by the iPad Mini. Considering the demand size waiting on the second generation iPad Mini, Apple’s Q4 sales will most likely skyrocket.

In response, Samsung Electronics is beginning to target the popular tablet market by releasing a premium model Galaxy Note 8.0 followed by a 20.3 cm Galaxy Tab 3 8.0 in late August.

Google with ASUS also released its strategic tablet Nexus 7 2 in late August, being noted as the dark horse of the 17.8 cm market. LG Electronics released its G Pad 8.3 last month, jumping into the premium tablet market. Amazon is in the competition, having released its Kindle Fire HDX 8.9 last month, the only tablet with the highest possible resolution of 2560x1600.

The competition in the large 22.9-25.4 cm (9-10 in) screen tablet market is narrowing down to the iPad Air and Samsung Electronics’ 2014 Galaxy Note 10.1. Starting with the US this month then in Korea later, Samsung will release the 2014 premium model Galaxy Note 10.1, in its rivalry against the iPad Air. 

## POPULARIZATION OF OLED TV

# OLED TVs Likely to Become Mainstream Sooner than Expected

OLED TVs are expected to be popularized in the near future.

According to industry sources on October 14, LG Display achieved 60-70% yield in the core production process of large-area OLED panels earlier this month, while Samsung Display recorded 40-50% yield.

When the two Korean companies introduced the world's first OLED TVs, many said that lowering prices would be difficult due to low yields, thus prompting skepticism about popularization. The launch had no special meaning other than symbolic at that time.

But the era of OLED TVs appears to be coming faster than expected, since domestic display manufacturers' production yields of large-area OLED panels has improved dramatically.

Kim Young-woo, researcher at HMC Investment Securities, said, "Usually, when the yield rate of OLED TVs reaches 70%, mass production becomes possible. LG and Samsung are projected to surpass the threshold by the end of this year," adding, "When 70% yield is attained, the price of 55-inch OLED TVs will be 15-20% cheaper. Therefore, they can be competitive in the market."

However, until 70% yield is attained, some problems will remain. The current yield is still low; hence, OLED TVs cannot be priced like LED TVs. Due to high prices, there is not enough demand for OLED TVs in the market.

According to a market research firm, the demand for large OLED panels in Q1 of next year is forecast to reach less than half of the panel supply in Q4 2013.

## UHT TV Price Competition



A curved OLED TV by LG.

In the meantime, intense price competition between manufacturers of next-generation high-definition TVs has started in Korea.

According to industry sources on October 13, Samsung Electronics recently cut prices for its 65-inch and 55-inch UHD TVs. Samsung's 65-inch UHD TV unit price is 7.4 million won (US\$6,905.89), down 17% from 8.9 million won in May. Its 55-inch ultra high definition televisions cost 4.9 million won (US\$4,566.80) per unit, a 23% decrease compared with the initial price of 6.4 million won.


LG Electronics also lowered prices for its 65-inch and 55-inch UHD TVs by 17% to 7.4 million won (US\$6,905.89) and 4.9 million won (US\$4,566.80), respectively. The initial unit prices were 8.9 million won and 5.9 million each.

Ultra HD TVs have a resolution of 3840x2160, four times higher than 1920x1080 of full HD TVs.

In the overseas market, Sony and

Chinese companies are vying for price cuts. In particular, the Japanese electronics company is trying to make a comeback with UHD TVs.

In the US, Samsung lowered prices for its 65-inch and 55-inch UHD TVs to US\$5,000 and US\$4,000 each. Initially, the 65-inch TV unit price was US\$7,500, while the corresponding figure for 55-inch TVs was US\$5,500. LG cut prices as well. Its 65-inch and 55-inch UHD TVs can be purchased with US\$6,500 and US\$4,500 each, per unit. At first, they cost US\$8,000 and US\$6,000, respectively.

Ultra HD TVs became commercialized in August 2012, when LG Electronics launched the industry's first 84-inch products. In January 2013, Samsung Electronics unveiled its 85-inch version. Sony introduced its relatively affordable 65-inch and 55-inch UHD TVs, whereas Chinese firms flooded the market with cheap small and medium-sized items. 



## COMPETITION OF CURVED SMARTPHONES

# Samsung to Release Curved Phone “Galaxy Round” on October, LG “G Flex” on November



A Samsung representative debuts its prototype smartphone with a curved screen at the International Consumer Electronics Show in Las Vegas in 2013.

**S**amsung Electronics will release the world's first curved smartphone in the domestic market on October 10. It has been designed to be curved from left to right, maximizing grip.

In fact, Samsung already showcased the use of flexible display technology. The company unveiled a prototype smartphone with a curved screen at the 2013 International Consumer Electronics Show (CES) in Las Vegas in January.

Also, LG Electronics will be releasing the first all curved plastic OLED display smartphone next month. Heavy competition between the two electronics companies is anticipated, especially in terms of design.

According to the communications industry on October 8, Samsung Electronics will release its Galaxy Round in the domestic market exclusively with SK Telecom on October 10. Last month, Samsung completed patent registration for “Samsung Galaxy Round” with the USPTO.

A source of telecommunication industry said, “The curved smartphone from Samsung Electronics will be called Galaxy Round,” and added, “It will be

released exclusively through SK Telecom.”

The Galaxy Round uses a Qualcomm Snapdragon 800 Application Processor (AP), becoming the third Long-Term Evolution Advanced (LTE-A) model following Galaxy S4 LTE-A and Galaxy Note 3.

Organic Light Emitting Diode (AMOLED) production line.

On the other hand, LG Electronics will release a 15.2cm (6in) plastic curved OLED display smartphone called the ‘G Flex’ as early as the beginning of November.

On October 7, LG Display official-

A leaked photo of the LG G Flex curved smartphone.




This phone also uses the world's first 14.5cm (5.7in) plastic OLED display, signifying the beginning of a flexible smartphone generation.

An industry source commented, “It will take more than three years to see the true flexible phones that can be folded in half. Samsung's first introduction of a smartphone with a flexible display has special meaning at the moment.”

It was reported that Samsung Display will mass-produce flexible panels for mobile phones within the year. The company is said to be able to manufacture 24,000 flexible OLED displays monthly in the 5.5th generation Active Matrix

ly announced it began mass producing 15.2cm curved OLED panels. There is talk in the industry that LG Electronics' curved smartphone model will be called “G Flex,” combining the premium line G Series with the word Flex.

On October 14 (local time), IT media such as The Verge published leaked photos of LG Electronics curved smartphone G Flex along with its release news.

The G Flex is a competing model to Samsung Electronics' Galaxy Round released last week. The G Flex shown in the photo is curved from top to bottom. On the other hand, the Galaxy Round curves from left to right. 

## SEMICONDUCTOR INDUSTRY

# Business Performance on the Rise with DRAM Prices Hiking

The fire in SK Hynix's Wuxi plant is boosting DRAM prices. Equipment orders for Samsung Electronics' Xian plant are raising expectations for performance improvements of semiconductor equipment makers after 4Q 2013. As such, stock prices for semiconductor-related companies are entering an upward cycle.

On September 2, SK Hynix recorded a closing price of 31,150 won (US\$29.06) in the stock market, up by 4.01% (1,200 won, US\$1.12). As the fire in the Wuxi plant raises semiconductor prices, stock prices are also looking up.

According to semiconductor e-commerce site DRAmEXchange, 4GB DDR3 DRAM module prices in September rose over 9% compared to July. The hike in semiconductor prices reflects concern that instability in supply and demand will continue following the fire. SK Hynix is currently filling up part of the decreased manufacturing volume with inventory, also seeing effects of hiked DRAM prices.

"The Wuxi facility accounts for approximately 12% of the world's DRAM production. The fire will affect approximately 6% of global supply," said Nam Dae-jong, researcher at Hana Daetoo Securities. "Up until September, inventory made up for the decreased supply, leading to a price hike. As PC makers try to stock up inventory, DRAM prices will continue to rise until 1Q 2014," he added.

With positive performance prospects by Shin Jong-kyun, CEO of Samsung Electronics' IT and mobile business,

Samsung Electronics has recovered to the 1.4 million won line one business day prior to the announcement of 3Q performance. Samsung Electronics closed at 1.418 million won (US\$1,322.99), up by 2.60% (36,000 won, US\$33.62). Shin said that "3Q performance will surpass 2Q records," raising hopes that operating profits could break through 10 trillion won (US\$9.3 billion).

The electronics industry rose by 2.05% in the stock market on that day.


In the KOSDAQ, plans for full-scale equipment orders from Samsung Electronics' Xian plant beginning in 4Q boosted the semiconductor industry. The semiconductor industry index rose by 1.53% to record 820.10. LDT and Semiteq, which are included in the index, hit the price limit. Wonik IPS (7.98%) and Clover Hitech (7.08%) also saw big leaps.

"Samsung Electronics is planning to build a new 3D NAND silicon wafer fabrication facility in Xian. We can expect full-scale equipment orders to begin in 4Q. Additional orders are expected in 3Q 2014, which means large orders for semiconductor equipment makers should last a while," said Song Jong-ho, researcher at KDB Daewoo Securities.

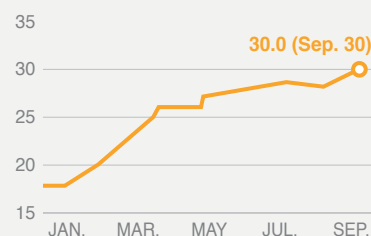
As the semiconductor industry recovers, several private companies in related industries are preparing for an IPO in order to invest in production facilities with a mid to long-term perspective. PCB circuit board printing equipment maker Interbex has selected KDB Daewoo Securities as the lead bank in preparation for an IPO in the KOSDAQ market.

Semiconductor-related stripper maker LTC and semiconductor tester TESNA are also planning for an IPO in the KOSDAQ.

"As Samsung Electronics and SK Hynix begin full-scale investments in additional facilities, related semiconductor equipment makers are preparing an IPO in order to meet increased volume. If investments continue to increase until 2015, we can expect high growth in semiconductor equipment makers," said Lee Sun-tae, researcher at NH Investment & Securities.

"Korean semiconductor makers are increasing investments in facilities as can be seen in Samsung Electronics' Xian plant. Furthermore, fire in the SK Hynix plant is pulling up semiconductor prices, having a positive effect on the overall semiconductor industry," explained Song. 

## TRENDS IN DRAM PRICES (US\$)



## SK HYNIX (WON)



## LIGHT AND SHADE

# Korean Builders' Overseas Construction Orders Should Be Subject to Risk Analysis



The total amount of overseas orders obtained by Korean builders over the past 6 years surpassed 400 trillion won (US\$377 billion) as of September 2013. But it was pointed out that it is necessary to prepare for growing risk.

According to data submitted to ruling Saenuri Party lawmaker Lee Hun-seung on October 20 by the Ministry of Land, Infrastructure and Transport (MOLIT), local builders won 4,133 contracts in total for construction projects abroad, valued at US\$377.1 billion (401.3 trillion won) from 2007 to late September of this year.

During that period, Hyundai Engineering & Construction (HDEC) was a top ranked builder in overseas construction, receiving 116 orders worth US\$43.7 billion. Samsung Engineering, which was embroiled in controversy

over lower-priced deals for overseas construction projects in the first quarter of this year, ranked 2nd with 76 orders valued at US\$37.8 billion. GS Engineering & Construction ranked 3rd with 71 contracts worth US\$33.7 billion.

The next spot was taken by Samsung C&T Engineering & Construction Group with 75 orders worth US\$24.9 billion, followed by Hyundai Heavy Industries (22 deals, US\$22.9 billion), Daelim Industrial Co. (50 deals, US\$22.3 billion), Daewoo Engineering and Construction (57 deals, US\$21.4 billion), SK Engineering & Construction (54 deals, US\$21 billion), Doosan Heavy Industries & Construction Co. (32 deals, US\$20.1 billion), and KEPCO Engineering & Construction Company (5 deals, US\$19 billion).


As of late September of this year,

overseas projects won by local construction companies amounted to US\$44.8 billion. Samsung C&T ranked first with US\$10 billion contracts.

In the meantime, it was reported that MOLIT and the International Contractors Association of Korea (ICAK) have statistics about overseas construction contracts. However, they do not seem to analyze data related to business losses or construction delay penalties. Their tendency to collect only favorable data for promotion and to neglect losses and risk management is a point against them. As a result, they are blamed for their data preference and negligence.

Last September, the Construction and Economy Research Institute of Korea (CERIK) held an emergency meeting on the potential risk of overseas construction. It was estimated that Korean builders' losses in overseas business caused by low-priced projects and insufficient technology would reach between US\$340 million and US\$1.8 billion.

Aggregated compensation costs from local builders for construction delays were projected to be between US\$754 million and US\$17.86 billion in total. In spite of these results, MOLIT and ICAK only dismissed the data as figures that exaggerated losses without disclosing any specific numbers. Builders themselves have not revealed their business losses or compensation costs for delays, either.

Lawmaker Lee said, "Possible risks in construction projects abroad ought to be prevented with the examination of relevant data." 



## TORAY KOREA'S ADVENTURE

# Toray Selected as Preferred Bidder for Acquisition of Woongjin Chemical, Planning to Invest 300 Billion Won

It is becoming more and more likely that Woongjin Chemical, which has the finest water treatment filter-related technologies in the world, will be acquired by a Japanese company. Under the circumstances, concerns are on the rise that Korea could become a mere production base without R&D capabilities in the industry, in spite of the national budget investment in it.

According to industry sources, Toray Advanced Materials (the local subsidiary of the Japanese chemical firm Toray Industries) proposed 430 billion won (US\$397 million) as its tender price in the bidding on September 10, which was higher than the prices suggested by LG Chem, GS Energy, and Unid. As such, Toray Advanced Materials (TAK) is expected to make the preferred bidder for Woongjin Chemical, which is a subsidiary of Woongjin Holdings, which is in a workout program now.

Experts are pointing out that not only the price side, but also matters like the protection of advanced technologies be taken into consideration, with Toray and Woongjin Chemical vying fiercely with each other for the third spot in the global reverse osmosis (RO) filter mar-

ket. "If the technologies accumulated by Woongjin were handed over to Japan, Korea's industrial competitiveness would be greatly affected down the road," said one of the bidders. RO filter development had been designated as a national project from its first stage.

Woongjin Chemical, which recorded 1.11 trillion won (US\$1.03 billion) in sales and 28.5 billion won (US\$26.3 million) in operating profits last year, is the number one RO filter manufacturer in Korea. It developed its first RO filter on its own back in 1994, and has developed micro filters and ultra filters since then to account for over 60% of the local market. It has exported a large quantity of water treatment filters to many countries, including the United States. In addition, its products have won a number of awards, including the Prime Minister Award and the Korea New Growth Potential Management Prize.

The global RO filter market is estimated to be 1.1 trillion won (US\$1.016 billion) in size as of now, with Dow Chemical and Nitto Denko taking up 32% each. They are followed by Toray (11%) and Woongjin (11%). The market is likely to grow at an even faster pace

with time as a key technology for seawater desalination projects.

Woongjin Chemical took a pivotal role in the national seawater desalination project in which the national R&D budget of 95.5 billion won (US\$88.2 million) was invested since 2006. It continued with its research activities for six years, and finally completed the development of highly functional RO filters and modules in April last year to make inroads into the global market, which had been led by US and Japanese companies. More recently, it succeeded in developing top-notch forward osmosis membrane filters.

Once the Korean company is taken over by Toray, such research outcomes end up in the hands of Japan, which means the future growth driver loses its momentum. However, Toray is refuting such claims by saying that it is already in possession of cutting-edge technologies in the field, and thus it is unfair to brand itself as a technology thief.

Toray Korea emphasized, however, "We've continued our investment in Korea all the way since 1963, when we provided fiber-related technologies for KOLON, and have closely cooper-

Japan's Toray Industries, Inc. won the preferential bidding rights for the Woongjin Chemical stake.

Lee Young-kwan, CEO of Toray Advanced Materials Korea, shakes hands with Governor Kim Wan-ju of North Jeolla Province after announcing an investment plan in Saemangeum Industrial zone on October 7.



ated with Samsung, KOLON, and many more,” adding, “Besides, we’re participating in a water treatment project led by the Ministry of Environment of Korea.” It went on to say, “We’re expecting that the acquisition will result in a great synergy effect, as Toray Advanced Materials is the successor to Toray Saehan, which was formed by the Toray Group and the predecessor of Woongjin Chemical through a 60-40 equity investment.”

Meanwhile Lee Young-kwan, chairman & CEO of TAK, revealed his aspiration that he will increase TAK’s competitive advantage in the water treatment business through the acquisition of Woongjin Chemical so that the company can compete in the international market. And he flatly denied the speculation on Woongjin’s technology leakage.

During a press conference held in Lotte Hotel Seoul in October 7, CEO Lee commented, “Some in the press say that our takeover of Woongjin Chemical will lead to its technology leakage, but it is simply not true. On the contrary, Woongjin will be helped by our company,” adding, “At the moment, it is difficult to use Woongjin’s purification facilities even if a domestic construction

company obtains an order for a water treatment plant project.”

He continued by saying, “Woongjin has Reverse Osmosis (RO) membrane technology, but so does our company. On top of that, we have the world’s best technology in ultra filters, microfiltration membranes, and nanofiltration membranes. So, we can improve Woongjin’s international competitiveness.” He added, “If we make filters in Korea, Korean construction firms will use ours.”

CEO Lee remarked, “SK Chemicals’ entry in the Poly Phenylene Sulfide (PPS) market, in partnership with Japan’s major chemical company Teijin, didn’t influence our decision. We will make investment as planned. In fact, we are thinking about more investment.”


CEO Lee also unveiled Japan’s Toray Industries and its South Korean subsidiary TAK will invest 300 billion won (US\$280 million) in Korea to build a plant capable of producing cutting-edge plastics used in electric cars and aircraft. He said that the new plant will be built at Saemangeum Industrial Zone, a massive reclaimed area on the southwest coast.

According to Lee, the Japanese company plans to establish a fully-integrated

plant covering all of the processes from producing PPS raw material to resin and compounds mixed with carbon or glass fiber. It will break ground by the end of this year and complete construction before the end of 2015.

The plant’s capacity will be 8,600 tons of PPS resin and 3,300 tons of PPS compounds. Out of the total output, 80 percent will be shipped to China. To this end, Toray will invest 86 billion won (US\$80.1 million), while its Korean unit will be responsible for the rest of the expenses.

Lee said TAK plans to produce 8,600 tons of polyphenylene sulfide resin at its plant in Saemangeum starting in 2015, and added that the company will increase its annual production capacity of engineering plastic to 17,000 tons by 2018, as it seeks to further boost its exports to China.

Lee explained that Saemangeum beat its rivals in Malaysia and Thailand due to what he calls “perfect” infrastructure and its geographical proximity to China. An industry source said, however, that such a move by Toray is concerned with its recent trial of acquiring Woongjin Chemical in financial trouble. 

## AUTOMOBILE INDUSTRY

# Outputs, Sales of Local Carmakers Sharply Drop amid Import Car Sales Skyrocketing

Vehicle production in Korea fell to its lowest level in September in 13 months owing to the three-day Chuseok holiday and strikes of two car manufacturers of Hyundai Motor Group.

According to a data released by the Ministry of Land, Infrastructure and Transport on October 10, South Korea's largest carmaker Hyundai Motor and the other four automakers produced a combined 287,978 units in September, down 16.2 percent from the same period last year. It marked the lowest monthly production since August last year when car output stood at 237,077 units due to strikes.

Hyundai's car output dropped 22.6 percent on-year to 115,106 units in September, while that of Hyundai's sister company Kia Motors fell 18.6 percent to 90,511 units from a year earlier. Lost production resulting from the partial strikes of the two carmakers in September is estimated to total 1.4 trillion won (US\$1.3 billion).

Outputs of GM Korea and Renault Samsung Motors fell 5 percent and 17 percent, respectively, in the same period. Ssangyong Motor's production inched up 2.4 percent.

In terms of sales, Korean automakers showed mixed performance in September. Hyundai Motor Company and Kia

Motors took a serious hit from the labor strike. The former recorded a negative year-on-year growth for the first time in 13 years, and the latter's monthly sales hit a record low. Meanwhile, GM Korea succeeded in raising its market share to close to 10%, and Renault Samsung Motors escaped from the bottom of the rankings. Ssangyong Motors continued its growth thanks to aggressive marketing, too.

Hyundai sold 46,257 cars in Korea and 317,713 abroad last month. Its global total sales volume decreased by 2.1% from a year earlier. The supply was not smooth due to the partial strike and the Thanksgiving holidays, which resulted in a decrease in the number of operating days. Still, the solid overseas production growth made up for the loss to some extent.

Hyundai's sales volume fell no less than 19.6% in the domestic market, while the auto manufacturer exported 68,086 cars and produced 249,627 units of vehicles abroad to post a 1.1% growth in the overseas market. The exports declined 26.5% from a year ago, but the local production in its overseas manufacturing facilities went up 12.7%.

Kia Motors sold 193,671 cars during the same month, 32,123 in Korea and 161,548 abroad, to show a 9.7%

decrease and the poorest monthly performance since August 2012. Although its major models such as the Morning, K5, and Sportage R did well in the domestic market, the sell-through fell by 17.7% compared to last year due to the lack of inventory and the overall recession in the global auto industry.

On the contrary, GM Korea's domestic sales volume increased 18.5% year on year from 11,181 to 13,252. Also, it sold 39,962 vehicles in the third quarter of this year to set the highest Q3 record since its inception. It exported 49,600 cars to post an 8.7% decline from the 54,338 recorded in September 2012. It also exported 99,200 cars on a complete knock down (CKD) basis during the same period.

Renault Samsung Motors sold 4,957 in Korea and 6,246 cars abroad to climb a notch to fourth place. The SM5 and QM5 led sales growth. The former was chosen by 2,500 consumers to show a 4.9% month-on-month growth from 2,383, while the latter's year-on-year sales growth rate amounted to 48.7%.

Ssangyong Motors, in the meantime, sold 4,432 cars in the domestic market and shipped 6,004 to overseas markets, many of them being the Korando series cars such as the New Korando C. The sale of this model is likely to further accelerate down the road. It is enjoy-





ing much popularity these days. Its sell-through is approximately 7,000 units as of now.

Meanwhile, the number of newly registered cars produced in the nation edged down during the three quarters of this year from a year earlier, whereas that of newly registered import cars jumped around 20 percent.


The accumulated number of registered cars in September edged up 2.2 percent from a year earlier to 19.2 million units. The Ministry forecast the number would reach 19.4 million units at the end of this year based on the trend.

During the three quarters this year, 1.1 million cars were added to the registration, up 1.29 percent from the same period of last year. The number of import cars increased 20.8 percent to 118,642 units, while that of domestic manufactured cars was down 0.51 percent to 1.0 million units.

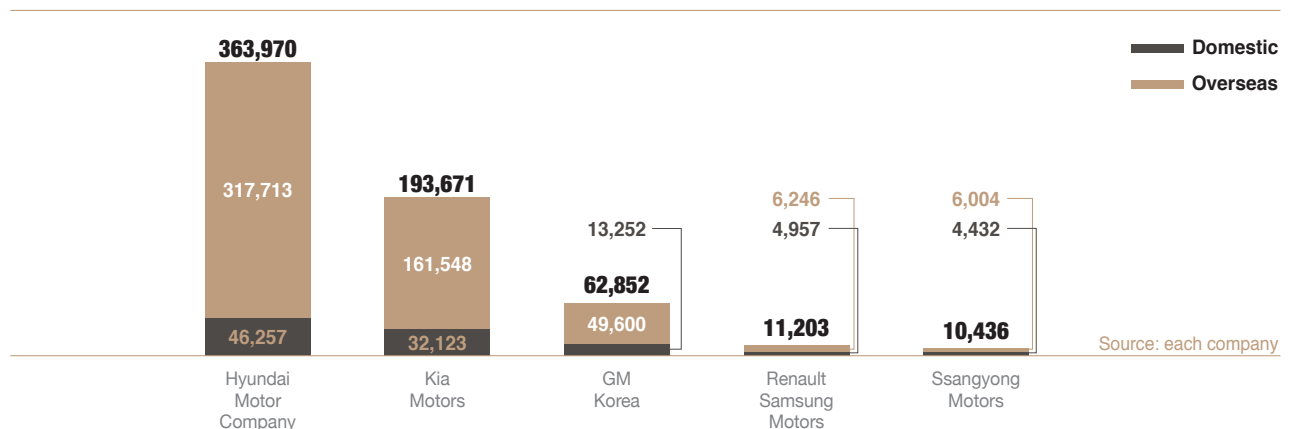
Among domestic manufactured cars, the new registry of GM Korea's cars went up 1.3 percent and that of Ssangyong Motors 31.7 percent. In contrast, the number of newly registered Renault Samsung's cars saw a 5.6 percent decrease, Hyundai Motor 0.98 percent and Kia

Motors 3.1 percent, respectively.

As for import cars, BMW posted both the largest number of registration and fastest growth. 25,262 BMW models were newly registered for the three quarters this year, up 16.6 percent from a year earlier. 19,055 units of the "Mercedes-Benz E-Class" were registered in the same period, up 20 percent from last year.

Industry sources said the skyrocketing sales of foreign made cars were due to the free trade agreement between Korea and European Union (EU) and young consumers' preference for import vehicles. 

#### KOREAN AUTOMAKERS' SEPTEMBER SALES (UNIT: CAR)



## HYUNDAI PREMIUM SEDAN

## New Genesis Comes with Performance of Premium German Cars

On October 24 at the Hyundai Kia Namyang Research Center in Hwaseong, Gyeonggi Province, Hyundai Motors opened a media presentation for the new Genesis and revealed the actual vehicle for the first time to domestic automobile reporters.

The new Genesis looks a lot leaner and dandier compared to the concept car announced at the US Detroit Motor Show in January. If the concept car had more of a bold, muscular, macho feel to it, the actual vehicle is a lot more relaxed and neat, like a sophisticated city gentleman. Hyundai explained, "The upgraded 'Fluidic Sculpture 2.0' from our design philosophy started in 2009 will become the family look of Hyundai vehicles," and added, "The new Genesis is the first model to be designed based on Fluidic Sculpture 2.0."

The front of the new Genesis has a large hexagonal grill applied. The concept car had a square grill. The rear is very restrained, so much that it almost looks boring. The side



A rendered image of the new Hyundai Genesis

looks less muscular in volume and expresses speed and sophistication. Compared to foreign brand vehicles, the front looks like an Audi, the rear a Lexus, and the side a Jaguar.

The length of the new vehicle is 4,990 mm, which is actually 5 mm longer than the original model, but because of the leaner design, it looks smaller.

As for the performance, Hyundai paid extra attention to the ride and handling. In the beginning of its development stages, Hyundai set the goal to implement "the performance and speed of a German premium car." The domestic and international competing targets were set to the Mercedes-Benz E Class and BMW 5 Series.

Hyundai did not reveal the driving system of the new Genesis, but it is most likely to use a 3.3 liter and 3.8 liter GDI engine with an eight speed transmission. The recently-developed three-liter turbo GDI engine will be installed later. It comes in two driving systems, rear wheel drive and four wheel drive.

## ELECTRICAL COMPACT CAR

## Renault Samsung Motors Proceeding with Electrical Vehicle SM3 Z.E Sales Plan

Renault Samsung Motors announced on October 4 that it will push forward with a plan to sell its SM3 ZE in Changwon City after Jeju Island.

In September, the automaker built an A/S Network, and installed AC electrical vehicle chargers in the Changwon division. In addition, it already secured sales bases.

Changwon City plans to conduct its campaign for electric vehicles so that 300 units can be sold by 2015. It will move forward with a plan to help government officials buy 20 units and citizens 30 on a trial basis this year.



The SM3 ZE Electric car from Renault Samsung

In Changwon, the price of an electric car is similar to that of a gasoline car in the same league, because buyers can receive a subsidy from the Ministry of Environment worth 15 million won (US\$14,015), and another one from Gyeongsang South Province and Changwon City valued at 6 million won (US\$5,604). In addition, people can get tax benefits for electric cars.

The city is scheduled to accept applications for electric vehicle benefits from October 7 to 16, and to select recipients on October 21.

## TAX EVADING FOREIGN COMPANIES

# Apple Assumed to Have Avoided Large Corporate Taxes in Korea in 2011



**M**ore than half of the foreign companies operating in South Korea have been found to not have paid any taxes on their profits in 2011.

According to data given to ruling Saenuri Party lawmaker Lee Man-woo on October 21 by the National Tax Service, 722 of the 1,409 foreign companies, or 51 percent, did not pay any corporate taxes in 2011.

Of the total, 688 reported sales of less than 50 billion won (US\$47.1 million) in the year, while the number of companies with revenues ranging from 50 to 300 billion won (US\$47 to 282 million) amounted to 24. There were even three firms that paid no taxes, despite their sales exceeding 1 trillion won (US\$943 million).

Detailed information on those foreign companies was not unveiled, but Lawmaker Lee singled out Apple as an

example case that might have evaded paying due taxes on profits obtained here. He pointed out that Apple evaded corporate taxes in Korea in 2011. The company recorded 1.8802 trillion won (US\$1.7730 billion) in sales here in 2011 alone.


According to global IT consulting firm Gartner's data, Apple had sold 1.657 million devices in Korea in 2010 to record 1.2071 trillion won (US\$1.1383 billion) in sales and boosted its sales volume to 2.581 million units in the following year.

Also, according to the May 21 US Senate hearing report cited by the lawmaker, Apple earned US\$22 billion on a pre-tax basis in 2011 in non-US markets, but paid just 0.05% of it, approximately US\$10 million, as taxes for that year. It also achieved US\$38 billion in pre-tax income between 2009 and 2011

in overseas markets, and the taxes paid during the three years were 0.06% of the amount.

"The data shows that the taxes paid by Apple to the Korean government in 2011 are just a fraction of 10 billion won [US\$9.42 million]," said the lawmaker, continuing, "We need to tighten our taxation criteria by clarifying the transfer price for intangible assets, and by means of closer international cooperation to deal with the tax avoidance strategy of multinational companies like Apple." He added that Apple seems to have adopted the Double Irish with Dutch Sandwich strategy for tax avoidance.

The tactic is as follows. When Apple's products are imported into Korea, Apple Korea pays the re-licensing fee for the technical license agreement with ASI to supervise the sale of Apple's products out of the United States, which is its affiliated company located in the tax exempt country of Ireland. Then, ASI transfers about 83% of the fee to AOI, another affiliated corporation in Ireland which manages Apple's intellectual property rights. As a result, the huge technological transfer fee can be transferred and Apple's operating profits and net income appear minimal, even when the sales volume is high.

"Besides, Apple Korea turned itself into a limited liability company in August 2009 and became free from the obligation of public announcements to heighten the possibility of tax avoidance," lawmaker Lee continued to point out. 



## IMPORT CAR MARKET

# Unexpected Changes in September's Import Car Market

In September, the import automobile market saw some unexpected changes. Volkswagen had the highest number of monthly sales for the first time in the domestic market. The best-selling car was Mercedes-Benz, beating BMW for the first time this year.

In addition, German brands such as BMW, Mercedes-Benz, and Audi wiped out the top ten spots in the bestselling car list. Other brands did not make it on the list. Also, American vehicles have grown noticeably, chasing very closely after Japanese vehicles.

According to the Korea Automobile Importers & Distributors Association (KAIDA) on October 7, Volkswagen won first place in the monthly sales records in the import cars market for the first time, selling 2,457 vehicles, while Mercedes-Benz sold 2,430, and BMW 1,916. Prior to this, Volkswagen marked the highest number of sales records in December last year, but considering that most companies adjust achievements at the end of the year, this did not signify much.


Following these were Audi (1,679 vehicles), Ford (599), MINI (555), Toyota Korea (410), Lexus (402), Chrysler (374), Honda (324), and Nissan (288).

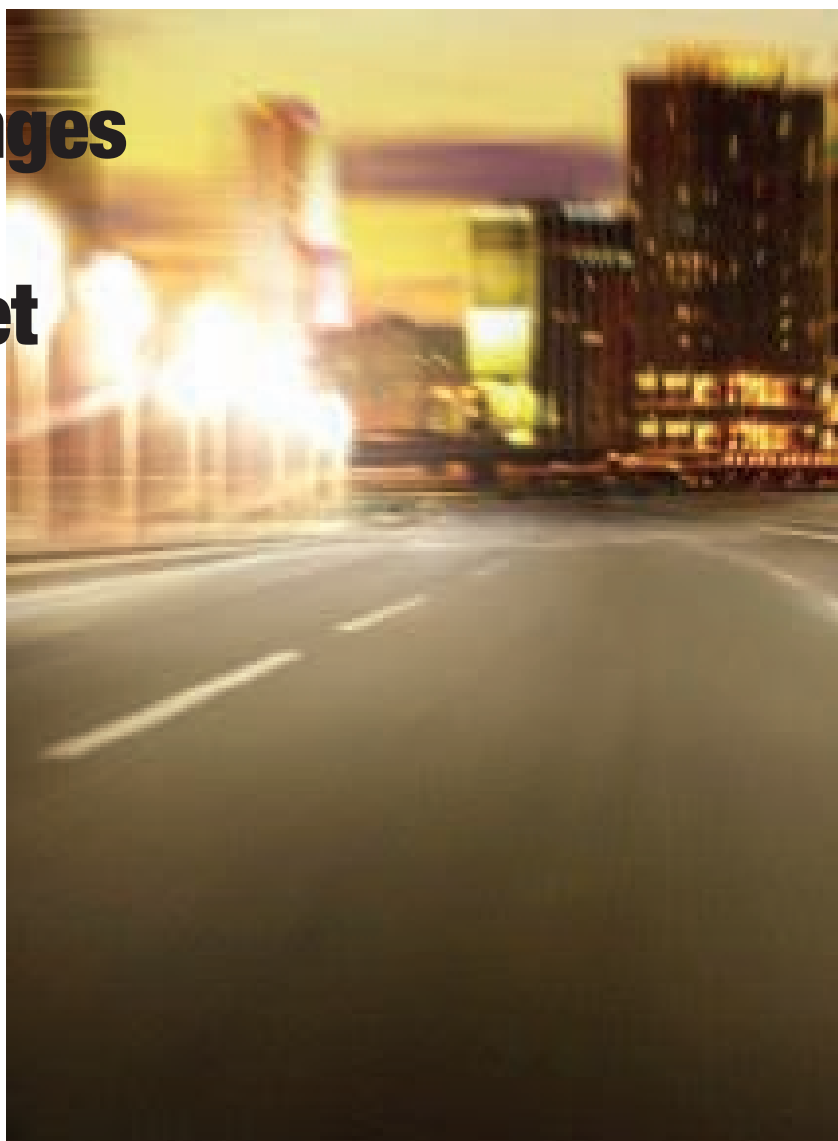
Land Rover (251) and Jaguar (173) increased 57.9% and 55.9% each in sales

compared to the same period of last year, and Porsche (143) grew 6.7%.

The top ten best-selling cars list has been completely dominated by Germany. Mercedes-Benz's E 220 CDI, which sold 575 vehicles, won first place. Second through fifth places were taken by Volkswagen's Tiguan 2.0 TDI BlueMotion (489 vehicles), the Golf 2.0 TDI (426), the Golf 1.6 TDI BlueMotion (400), and the Passat 2.0 TDI (362). Mercedes-Benz E 300 (352 vehicles), E 250 CDI 4MATIC (342), Audi A6 3.0 TDI Quattro (277), Audi A6 2.0 TDI (257), and

Mini Cooper (250) followed in the top ten list.

The 5 Series from BMW, which never missed the first place on the list, did not make it for the first time. It seems potential 5 series customers postponed their purchases as BMW's latest 5 Series were released toward the end of last month. In fact, there are about 2,000 customers who made reservations for the new BMW 5 Series so far by October 5. Therefore, the industry is paying close attention to whether or not this trend is temporary or will continue. 



Volkswagen sold the most among foreign brands in September, which is the first monthly performance for the German brand in the domestic market.



## JAPANESE CAR BRANDS

### Seeking to Recover Market Share in Korea



their market share over the last five years.

In the mid-2000s, vehicles made in Japan represented the vast majority of the top 10 best-selling foreign cars in Korea. In particular, Lexus ranked top, followed by Honda. However, those good old days are long gone. As of August 2013, Japanese cars made up merely 14.9% of the Korean foreign car market.

The calamitous decline in market share is attributable to

Japanese automobiles accounted for 35% of the Korean import car market in 2008, but have lost more than half of

Koreans' strong preference for German auto brands such as BMW and Mercedes-Benz, as well as Japanese car manufacturers' passive responses to the "diesel car craze."

In the first half of this year, among Japanese brands, only Toyota Camry was one of the top 10 best-selling foreign cars in Korea. Other Japanese car brands constitute less than 4%, with Toyota at 3.93%, Lexus 2.98%, and Honda at 2.65%.

Due to deteriorating sales, Japanese car brands are aiming to recover market share through the introduction of new cars and special discount offers in the second half of 2013. They are receiving a lot of attention in the auto industry, since they are using both discount benefits worth millions of won and competitiveness of new models as stepping stones toward the next golden age.

In May-July 2013, in particular, Toyota offered a 3 million won (US\$2,796) discount on the main Camry and Prius models, thereby achieving its highest ever monthly sales figure.

## BOEING'S INVESTMENT IN KOREA

# Will Boeing Keep Promise to Invest \$100 Mil. in Yeongcheon City?



Brad Swallow (third from left) in charge of Yeongcheon MRO Center for Boeing, Kim Young-seok (fourth) Yeongcheon City Mayor, Kim Kwan-yong (sixth) North Gyeongsang Province Governor, and others at the Nokjeon MRO Center business site in Yeongcheon City

The local economy is paying close attention to whether or not Boeing Company will keep its promise to invest in a maximum of US\$100 million in Yeongcheon City, North Gyeongsang province, as the Defense Acquisition Program Administration announced its plans to review the model selection for the next-generation fighter plane business (FX Business) from the beginning all over again.

Although some view Boeing's investment linked with the FX business, North Gyeongsang Province and Yeongcheon City will host the Boeing Avionics MRO Center grand opening ceremony on October 14 and expect the investment to follow through as planned.

According to Yeongcheon City, Boeing will hold the grand opening ceremony of its avionics MRO center at the Gyeongbuk Research Institute of Vehicle Embedded Technology in Nokjeon, Yeongcheon City, on October 14 with Representative Joseph Song of Korea

Defense Business Department and other figures attending. The 1,010m<sup>2</sup> Boeing MRO Center is being constructed on the 14,052m<sup>2</sup> site in Nokjeon, scheduled to be up and running by October next year.

In May last year, during President Park Geun-hye's visit to the US, Boeing announced its plans to invest a maximum of US\$100 million. So far, the US has been responsible for the MRO processes for Boeing's avionics parts, but the plan is to have the Yeongcheon MRO center take charge. This is the first time for Boeing to build an MRO center in not only Korea, but also in Asia overall.


Therefore, Boeing's MRO Center construction has contributed greatly to improving Korea's aviation industry and will continue to serve as a stepping stone for Korea to grow into Boeing's Asia-Pacific MRO location.

Following the MRO Center grand opening ceremony, North Gyeongbuk Province, Yeongcheon City, and Boeing will also host the "2nd North Gyeong-

buk International Aviation Forum" at the Seoul Grand Intercontinental Hotel on October 31., over 400 domestic and international aviation companies, universities, research associates, and others will participate at this forum.

In fact, Yeongcheon City trying to stimulate the avionics parts industry by planning on a national project called the "avionics examination and evaluation center construction" to be completed by 2016, investing a total 37 billion won (US\$34.6 million), including 22 billion won (US\$22.6 million) in governmental funds. This center will be 3,865m<sup>2</sup> in size (one main center and two testing centers) and will be built next to the Boeing MRO Center for evaluating, approving, and supporting development technologies for all sorts of avionics parts.

It is possible though, with the announcement to review the model selection for the next-generation fighter plane business from the beginning all over again, for the FX business result to affect Boeing's investment plans. However, in a conversation with a company representative at the recent Yeongcheon CCI, a Boeing director said, "The FX business and Yeongcheon MRO Center constructions are not related, and the investment plan will not be changed."

Yeongcheon City Mayor Kim Yeong-seok also said, "Boeing's Avionics MRO Center and the avionics examination and evaluation center construction businesses are completely separate from the FX business and are continuing very well," and added, "The avionics parts industrial complex construction business linked with these businesses will also continue as planned." 



## LOUIS VUITTON

# Splendid Debut, but Sales Humiliation in Korea



The world's first Louis Vuitton airport store at Incheon Airport.

The world's first Louis Vuitton airport store, which opened at Incheon two years ago, is losing its prestige. The French luxury brand is witnessing a continuing decline in sales due to its waning popularity and a decrease in Japanese customers.

According to Seoul Incheon International Airport's duty-free zone Airstar Avenue on September 29, the average daily sales of the 550-square-meter airport megastore is US\$230 million in 2013, down 18% from 2012's US\$280 million. Even after usual high demand during the first year for a new store are factored in, its negative sales growth so far this year is disappointing, which is more than twice the figure for 2012 (-7%).

US\$230 million in 2013 represents a 23% decline in daily sales compared to US\$300 million in 2011, when the store opened. In fact, daily sales per square meter totaled about 62 million won in

2011, far exceeding the average sales of duty-free shops at 38 million won.

The LVMH group that owns Louis Vuitton is reported to be taking extra-special care of its store at the Incheon airport, for it is the world's only airport store. It also enjoyed high sales immediately after its opening. For these reasons, Bernard Arnault, Chairman and CEO of the LVMH group, visited the store in person in May 2012.

Industry analysts are saying that the biggest factor for the brand's massive decline in sales is a decrease in Japanese tourists caused by a weak yen.


An official in the duty-free industry commented, "A sudden sharp decrease in Japanese tourists led to a reduction in the sales of some of their favorite luxury brands, including Louis Vuitton. I think that the situation is not much different at duty free stores downtown."

As the official said, Japanese tourists

make up a large percentage of the brand's customer base in Korea. According to sales data on the airport store, as of February 2011 Japanese people had the second-highest rate with 18.6%, after local residents at 53.5%.

Some in the industry think that the reduced sales figure shows the brand's dwindling popularity in the domestic market.

A luxury industry associate pointed out, "A few years ago Louis Vuitton bags were called the 'three-second-bag' in Korea, meaning they were ubiquitously seen on the street, like every 3 seconds. But the brand has recently lost its popularity, which is related to trends in mindful consumption."

Shilla Duty Free, a part of the Shilla Hotel owned by Samsung Group, has been the owner and operator of the Louis Vuitton airport store since September 10, 2011. 

## 2013 GLOBAL MATERIALS AND PARTS INDUSTRY FAIR

“

# PLANTING THE SEED OF THE CREATIVE ECONOMY IN THE MATERIALS, PARTS INDUSTRY

”

The 2013 Global Materials and Parts Industry Fair hosted by the Ministry of Trade, Industry and Energy and conducted by the Korea Institute for Advancement of Technology (KIAT), Korea Evaluation Institute of Industrial Technology (KEIT), Korea Trade-Investment Promotion Agency (Kotra), and KINTEX will be held from Wednesday, October 30 to Friday, November 1, at Exhibition Center 1 of KINTEX in Ilsan.

At the Fair, 780 domestic and international material parts related companies, facilities, colleges, and research centers will participate in award ceremonies, exhibitions, seminars and forums, as well as the GP Korea Conference, where they will check the accomplishments of the domestic materials and parts industry. GP in this case stands for Global Partnership. Other various programs for overseas business expansion will be provided as well.

At the awards scheduled during the opening ceremony, 37 worthy persons in the materials and parts technological development area will receive Silver Tower Order of Industrial Service Merit awards, along with other industrial recognition awards, presidential citations, prime minister and minister citations. The awards will be handed out considering the level of contributions made by the materials parts industry to the national economy.

The exhibition will be divided into the three main parts of Infrastructure, 20 Core Parts Materials Accomplishments, and Material Parts Companies. Visitors can see the achievements of the government's materials parts cultivation business, as well as the current condition and visions of the domestic materials parts industry. It will also provide opportunities for the participating companies and facilities to check up





on each other.

More information on the 2013 Global materials parts industry Fair can be found on their website at [www.imac21.co.kr](http://www.imac21.co.kr).

### The “GP Korea 2013” Conference

In addition, the “GP Korea 2013” for vitalizing global cooperation in the materials parts industry and expanding overseas business opportunities for domestic materials parts companies will be held for two days, from Wednesday, October 30 to Thursday, October 31 at Exhibition Center 1 of KINTEX in Ilsan.

GP Korea is a 1:1 domestic: international matching conference program for foreign global demand companies, leading research institutions, and the domestic material parts companies themselves. It aims to expand overseas business opportunities for domestic material parts companies. It began in 2010 and has held over 70 conferences since then, matching about 5,000 cases.

At “GP Korea 201,” a total of 400

companies will be participating in the conference, including about 330 domestic materials parts companies and 50 global companies. These will include Volvo and GM, 9 foreign research facilities such as Fraunhofer (Germany), VTT (Finland’s Technical Research Centre), and 10 foreign investment companies such as Honda.

Other than the conferences for global demand companies per foreign market, “GP Korea 2013” also holds separate conferences for technical cooperation between foreign research institutes and domestic small to mid-size material parts companies, and those for foreign investment companies.


Including Europe’s biggest applied science technology research institute Fraunhofer, nine leading foreign research institutes and equally excellent domestic small to mid-size companies will come together at the technical cooperation conference, where they will discuss the business potential in outstanding technologies developed by domestic materials parts companies and search for over-

seas business expansion opportunities.

Also, through various supporting options such as the global accompanied growth R&BD business, domestic materials parts companies will be connected to global demand companies and continue to receive support for joint R&D as well as global commercialization processes.

Also, depending on the needs of the small to mid-size companies participating in the conference, on-site matching with foreign global companies and investment companies may take place.

KIAT Representative Jung Jae-hoon said, “Mostly, I expect Korea’s excellent small to mid-size companies who are facing difficulties in commercializing their technology due to the lack of R&D infrastructure in the field to grab opportunities for expanding business to foreign markets by aggressively networking with leading foreign research institutes at GP Korea.”

More information about GP Korea 2013 can be found on their website at [www.gpkorea.or.kr](http://www.gpkorea.or.kr). 



## 20 CORE MATERIALS AND COMPONENTS EXHIBITION

# KEIT's Efforts to Reduce Dependency on Japan for Materials and Parts

The Korea Evaluation Institute of Industrial Technology (KEIT) will host the "20 Core Materials and Components Project Performance Exhibition" from October 30 to November 1 at the Ilsan KINTEX.

The exhibition is to share the performance of the "20 Core Materials and Components Project" which has been in operation by KEIT for the past three years. The objective has been to create self-reliant core materials and components businesses, which is mandatory to reduce trade dependency on Japan.

The "20 Core Materials and Components Project Performance Exhibition" is expected to provide great benchmarking opportunities to other materials parts companies and facilities by thoroughly exhibiting each business, beginning to end.

The project began in November 2009, and its purpose was to develop 20 core products in 6 major fields to urgently replace any of 100 imported materials and components that are likely to face increased demand in the future. The project was expected to be complete this year.


Since there is a growing dependence on Japan for core materials and components due to a lack of original technology, the project focused on accomplishing creating core materials and components to make Korean businesses self-reliant, based on "selection and concentration." Over the course of three years, a total of 225.5 billion won (136.5 billion in government donations) will be invested into a

total of 20 fields.

Through this project, the development and commercialization of 20 core materials and components with high foreign trade dependency achieved technological self-reliance. This will contribute greatly to the reduction of Korea's high trade dependency on Japan for the materials parts business.

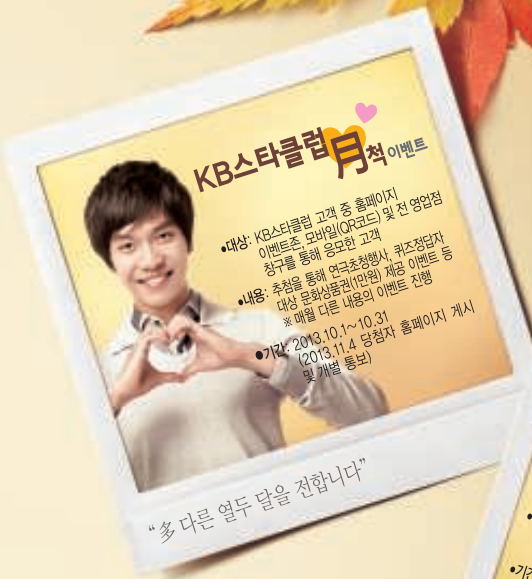
On the other hand, the exhibition will be hosted alongside the "2013 Global Material Parts Industry Fair," the largest event in the domestic materials and components industry with over 780 domes-

tic and international materials and parts related companies, facilities, colleges and research institutes participating. Awards ceremonies, exhibitions, seminars and forums, and networking conferences with foreign companies will also be held together.

KEIT Representative Lee Ki-sub said, "This exhibition will show the fruits of efforts poured in by the business personnel for the past three years, and I hope many materials and components associates visit to confirm the potential and capabilities of the domestic materials and components industry." 

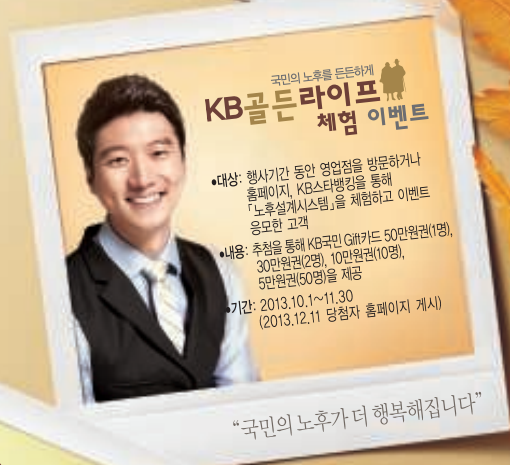


Lee Ki-sub, Chairman and President of Korea Evaluation Institute of Industrial Technology



## KB국민은행과 함께 가을스토리 만들기

다양한 이벤트와 따뜻한 스토리로 가득한  
KB국민은행에서  
당신만의 특별한 가을을 준비하세요



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## “ICT WAVE”

# Korean Gov't Invests 8.5 Tril. Won into ICT Research and Development Strategy



Front page of the MSIP web site, [www.msip.go.kr](http://www.msip.go.kr).

After holding the 23rd ministerial meeting for economic issues on October 23, the Korean government announced mid-long term strategies for a job-centered Creative Economy, one of the main visions of the Park Geun-hye administration.

To realize those strategies, the Ministry of Science, ICT and Future Planning (MSIP) devised the “ICT WAVE,” a long-term strategy on Information and Communications Technology for research and development (R&D). It is aimed at creating 180,000 jobs and developing 10 key technologies and 15 services by 2017 with an investment of 8.5 trillion won (US\$8.0 billion). The strategy for ICT R&D is expected to generate 12.9 trillion won (US\$12.2 billion) of production in the ICT sector and create significant added value of 7.7 trillion won (US\$7.3 billion).

MSIP's 10 key technologies include holograms, Content 2.0, intelligent soft-

ware, Internet of Things (IoT) platforms, Big Data and Cloud tech, 5G mobile communication technologies, and smart networks. It will also focus on 15 key services such as Hyper Net, future advertisement, interactive creative education, digital support for small businesses, user-selectable realistic broadcasting, driverless cars, next-generation smart work, smart eating safety, real-time response to cyber terrorism, and detecting and preventing crime using smart CCTVs.

MSIP has four visions for its ICT WAVE strategy. WAVE is an acronym that stands for World's best ICT, Activating R&D ecology, Vitalizing industry, and Enhancing life. The ministry also set goals to have a technology transfer rate of 35% within 5 years, and to see investment in ICT R&D and its productivity growth of 7%. MSIP also hopes to be the fourth largest patent-holding country.


To increase ICT R&D's effective-

ness, the ministry decided to form the Special Committee on Information and Communication Convergence under the information and communication strategic committee, and to establish a National IT Promotion Agency.

## 10 Future Technologies for Small and Medium Sized Companies

Meanwhile, future promising technologies have been selected to serve as the basis for domestic small to mid-size companies thirsty for next-generation growth power development.

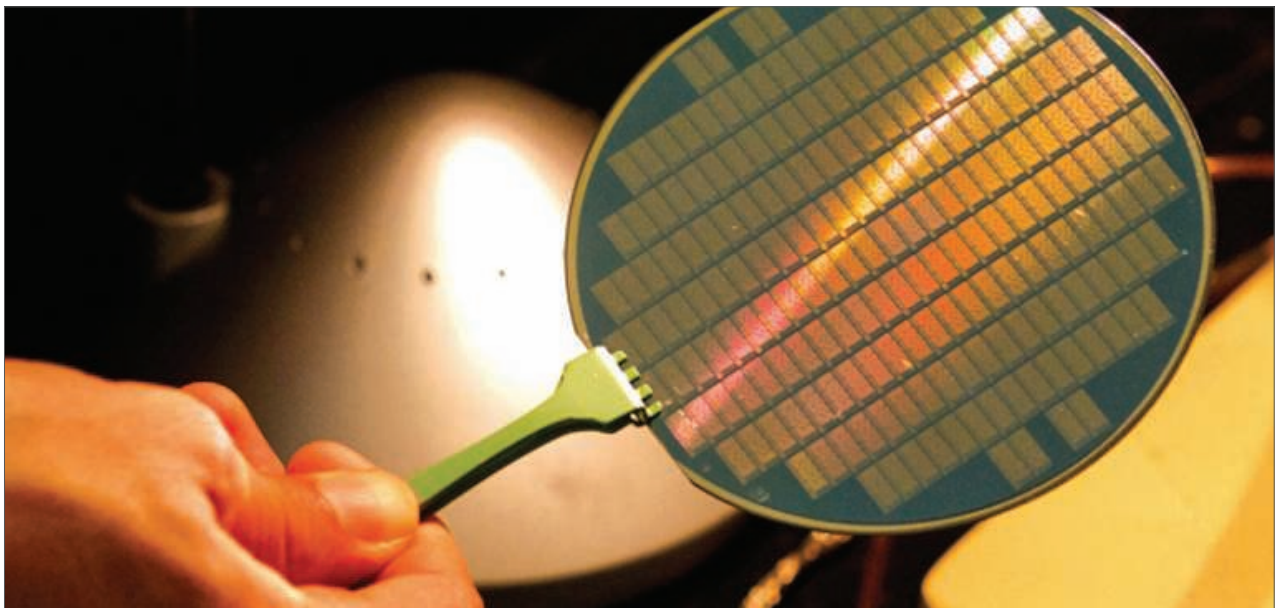
On the same day, the Korea Institute of Science and Technology Information (KISTI) reported it will hold a “2013 Future Promising Technology Seminar” on October 24 at COEX in Seoul where it will announce 10 future promising technologies. These include degenerative brain disease treatments, micro-RNA-based anti-cancer drugs, micro cogeneration, quantum dot solar batteries, disaster countermeasure technology using wireless sensor networks, flexible concrete, emotional interaction technology, digital forensic technology, high efficiency wastewater disposal technology, and next-generation rust and red tide control and prevention.

KISTI will analyze the summary, characteristic, domestic, and international research directions and solution tasks for each technology. It will provide the information on the KISTI Mirian website. 



## NEXT-GEN ELECTRODE TECH

# KERI Develops Tech to Allow Dispersion of Nanocarbon Materials



The world's first carbon nanotube computer constructed by engineers working at Stanford University.

A Korean research team has developed the world's first technology that enables the high-concentration dispersion of carbon nanotubes (CNTs) and graphene, which are regarded as next-generation electrode materials, without using dispersants.

According to the Korea Electrotechnology Research Institute (KERI) on October 16, a team led by Lee Geon-woong and Han Joong-tark from the Nano Carbon Materials Research Group of the Creative and Fundamental Research Division at KERI has successfully developed the industry's first technology that allows the fabrication of highly conducting pastes that can easily be applied to printed electronics and research on nanocomposites. As a result, it is possible that carbon nanomateri-


als will be more widely used in various fields in the future.

Carbon nanomaterials such as CNTs and graphene have been considered to possibly replace existing steel or ceramic electric conductors due to high conductivity. To disperse carbon nanomaterials with a high concentration, it was necessary to use surfactants, which are insulating materials. Or, alternatively, many functional groups had to be introduced on the surface. However, by doing so, the high conductivity of carbon nanomaterials was damaged.

To address the problem, the research team developed a method that imitates multiple hydrogen bond arrays, easily found in protein structures or the spiral structure of DNA. The team overcame the van der Waals force between carbon

nanomaterials by introducing a functional group where the damage of carbon nanomaterials can be minimized and four hydrogens can be combined at the same time. Thus, Lee and Han's team made it possible to fabricate not only dilute solutions but also highly conducting pastes.

Dr. Han said, "This technology is so innovative that it may create carbon nanomaterials' second boom." The team already applied for a patent for its original technology and an applied patent at home and abroad, and is preparing for technology transfer at the moment.

This study was published online in the October 7 issue of *Nature Communications*, a bi-monthly scientific journal published by the Nature Publishing Group. 



## KOREAN MEDICINE

# Forerunner in Korean Medicine Promotion

**CEO Son of “Son Korean Medicine Clinic” is making every effort to spearhead globalization of Korean medicine and to develop medical tourism.**

With the Korean Wave, or Hallyu, spreading across the world beyond Asia, Korean medicine is drawing huge interest based on its uniqueness. The excellence and superiority of Korean medicine was been evidenced when the medical encyclopedia of Donguibogam beat China's HuangdiNeijing to be registered as a part of the UNESCO's Memory of the World in 2009. The Donguibogam is an eastern medicinal manual written by Heo Jun in 1613, and its purpose is to treat and prevent disease by means of easy-to-find medicinal herbs.

Under the circumstances, the Korea Tourism Organization (KTO) set a goal in 2009 to attract 50,000 medical tourists and reach a production inducement effect of 900 billion won (US\$848 million) by 2013, the 400th anniversary of the publication, in order to accelerate the globalization of Korean medicine. In compliance with such efforts by the Government agency, Son Insuk (George), who is descended from a famous doctor of Korean medicine, has been in the front lines of the promotion. He is the head of Son Korean Medicine, the management of which was handed over by his father three years ago while working devotedly as the secretary general of the Korea Medical Tourism Association.



## Committed to the Internationalization of Oriental Medicine

It was during the International Association of Athletics Federations (IAAF) World Championships in Daegu back in 2011 that he became interested in earnest in the internationalization of Korean medicine. At that time, he volunteered as an interpreter utilizing his studying experience in the United States, and saw a lot of injured athletes recover fast thanks to acupuncture.

He has been committed to the promotion of Korean medicine since then,

volunteering to work as an interpreter at almost every international event held in Daegu City and North Gyeongsang Province. He served as an interpreter when the deputy Prime Minister of Cambodia and a Senegalese minister visited Daegu. The national team of India that participated in the Gyeongju Korea Open International Taekwondo Championships last year visited his hospital in Yeongcheon City, North Gyeongsang Province for treatment as well. And, more recently, 11 countries' ministers and their wives attended his Korean Medicine Promotion Session in



President Son sits in the booth at the 19th UN World Tourism Organization General Meeting held in Gyeongju in 2011



1. The Son Jae-lim Cultural Heritage Museum

2. A Korean medicine doctor of "Son Korean Medicine Clinic" treats a Spanish VIP suffering from anhypnosis with headaches. The Spanish patient wanted to have the treatment everyday during her stay in Korea.

3. CEO Son's wife Lee Young-ja (left), father Dr. Son Jae-lim and younger brother's wife Han Hyun-hee

May this year at the National Assembly. In August, he went to the Busan International Medical Tourism Convention and organized the invited lectures of Western and Oriental medicine professors from Washington University. Also, he received an appreciation plaque in 2011 from the KTO for his contribution to the promotion of Korean medicine at major international events like the IAAF Championships, Gyeongju World Culture Expo, UN World Tourism Organization General Meeting, and the general assembly of the DeutscherReiseVerband (DRV). He won an accolade from the Korean Minister of Culture, Sports and Tourism last year for the same reason, too.

#### Starting Medical Career at 40

When he was young, he dreamed of becoming an Oriental medicine doctor like his father. However, he happened to study in the United States and completed his MBA at the University of Bridgeport, CT, before his father told him to

come back to Korea. His father, Son Jae-lim, is an Oriental and Western medicine doctor very well-known for stroke treatments. The president married his current wife after returning to Korea. "I followed my father's will to marry her who is a doctor of Korean medicine, and I think that I made the perfect choice at that time," he said.

Many of his family members are doctors, including his younger sister and brother. His father graduated from the college of Oriental medicine at Kyung Hee University and opened the second Oriental medicine hospital in Korea, the Yeongcheon Son Korean Medicine Clinic, in 1981. Six years later, he obtained a license to practice Western medicine, too. He has devoted himself to stroke treatment for over 40 years and cured a great number of patients. Two of his daughters-in-law who are Korean medicine doctors have learned from him for years and continue his reputation.

In such family background, the president made his mind up to become a medical personnel himself at the age of



President Son makes a presentation on Korean medicine at a seminar held in Hanoi, Vietnam in April, 2013

40. He wanted to offer medical services in the third world and, at the age of 40, entered the department of nursing of a college located in Gyeongsan City. This year, he was elected as a general assembly member of the International Council of Nursing (ICN) and is scheduled to liaise with foreign ambassadors in Korea for its 2015 general meeting.

#### **Another Plan for the Globalization of Korean Medicine**

“What is more important than the treatment of a disease is to prevent it in advance,” he said, emphasizing, “This is the number one principle of Korean medicine, whose purpose is to maintain the body of a human being in the optimal state to strengthen its immunity.” According to him, not only can Korean medicine make a great contribution to the maintenance of health and immunity for children and those who lived for a long time in a foreign country, but also ailments such as allergies, back pain, jet-

leg fatigue, insomnia, constipation and chronic headache can be cured by the non-pharmacological treatment based on Oriental medicine.

In this context, president Son is planning to kick off some hands-on programs for the general public as well as foreign companies, international schools, and foreign embassies in Korea through which their awareness and understanding of Korean medicine can be increased. The free programs cover Korean-style massage, hand acupuncture, moxibustion, Oriental medicinal therapies and many more.

“I want to get more foreigners in Korea to be more familiar with Korean medicine,” he remarked, adding, “At the same time, I am planning to send some of the doctors working with me out of Korea so that the people around the world can be familiar with the science.”

#### **Another Dream at the Age of 50**

Now at the age of 50, he has another

goal, that is, the rebirth of Korean medicine by refining its international competitive edge. To this end, his hospital has signed industry-academia cooperation agreements for the scientific and harmonious development of Korean medicine in tandem with Western medicine. The organizations that have signed agreements so far include Tongmyong University in Busan City, the Busan University Hospital, the Dong-A University Hospital, the Daegu Catholic University Medical Center, and the Yeungnam University Medical Center in Yeongcheon City, following that with Keimyung University in Daegu City in October 2002. Son Korean Medicine Clinic concluded another such agreement with the Dongsan Medical Center of Keimyung University two years ago for cooperative medical treatment as well. “More and more people are getting interested in Oriental medicine worldwide,” he said. “I believe that it can cover more diseases and patients on the primary diagnosis and treatment side, is less limited by



time and space, and is more cost-effective than Western medicine.”

He went on, “It seems that there are not a few people who still think Korean medicine is not scientific and the herbs are not free from safety problems, even though its methods have been proven to be scientific enough through the course of history.” However, things look favorable for him these days, since the inauguration of the new government, as seen in the fact that President Park Geun-hye was accompanied by an Oriental medicine doctor during her state visit to the United States.

He is also trying to revitalize the local Oriental medicine industry. For example, he is making great efforts to promote Yeongcheon City as host to the 2015 World Traditional and Oriental Medicine Expo. The 2013 event was held in Sancheong, South Gyeongsang Province. “Not just Sancheong, but also Yeongcheon has been the largest hub of medicinal herbs in Korea while the “medical city” of Daegu with abundant medical related human resources and the attractive tourist destination of Gyeongju could be biggest supporters, which means Yeongcheon will be the best choice for the international event,” he remarked.

### Striving to Remain Great Contributor to Local Community

President Son and his hospital are committed to their contributions to the local community, too. His father built the Son Jae-lim Cultural Heritage Museum to put on display his 40 year-long treatment data, medical books, rare herbs, and many more, and promote the excellence of Korean medicine, providing visitors with dietary information suitable for their health conditions.

His hospital has participated in the Yeongcheon Korean Herb and Fruit Festival for years as well. In the 12th festival of this year, his clinic provided the Korean Medicine Healing Camp

for Families and was received extremely well by the visitors. The camp was attended by many ambassadors and military personnel from overseas.

In October 2011, the Son Korean Medicine Clinic joined the promotion booth of the KTO in the 19th UN World Tourism Organization General Meeting in Gyeongju to represent Daegu City. There, it publicized Korea’s superiority in Oriental medicine and its medical tourism policy.


Moreover, the clinic is running a variety of programs to promote the health of adolescents. It has signed MOUs with Kyeseong Middle School in Daegu in 2010 and Shinmyeong High School the next year to provide free healthcare consulting and lectures for students to understand the superiority of Korean medicine, a valuable heritage from our ancestors. In July this year, it concluded a medical treaty with the Yeongcheon branch of the North Gyeongsang Provincial Association of Deaf Adults. On September 5, it provided medical training for 12 of the interpreters and volunteer workers in the

World Energy Congress 2013 in Daegu. It donated a scholarship of 10 million won to the Yeongcheon City Scholarship Foundation on October 14, too.

### For Curing of Patients across the World

At present, the Son Korean Medicine Clinic’s medical services are available not only in Yeongcheon but in Daegu, Busan, Seoul, Gyeongju, the KTO, and Korea National Defense University. The clinics are specialized in the treatment of cerebrovascular diseases such as cerebral hemorrhages and cerebral apoplexy, obesity, arthrodynia, spinalgia, chronic pain, etc.

Many people are paying keen attention to what will become of his and his clinic’s dedicated endeavors for the modernization and globalization of Korean medicine.

“Some people think that they can be happy only when their dreams come true, but I believe that an unfulfilled dream will let you have another dream to be fulfilled in the future,” he said. 



On Dec. 28 in 2011, president Son receives an appreciation plaque from the KTO for his contribution to the promotion of Korean medicine





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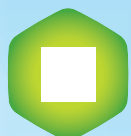
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KORAD will make best efforts in order to  
provide more safe and clean environment  
with higher trustful expectations.

KORAD was established under  
the Radioactive Waste Management  
Act on 1 January 2009. KORAD will contribute  
to safe and clean environment.



**KORAD**  
한국원자력환경공단

# Gastech

## Conference & Exhibition

Korea | KINTEX 1 | 24 - 27 March 2014

27TH EDITION

HOSTED BY



SUPPORTED BY

KINTEX

### Centres of Technical Excellence (CoTEs)



**Gastech Exhibition Seminars  
Driving Awareness of Innovation  
& Advancement in Gas Technology**

Gastech Exhibition |  
Tuesday 25 to Thursday 27 March 2014

- **9 Highly focussed technical seminars** on the exhibition showfloor
- **Delivering knowledge, education and awareness** of technological innovations
- **Showcasing industry expertise** and the latest developments in gas technology

#### Streams at CoTEs



Natural Gas Vehicles (NGV)



Offshore & Subsea Technology



Pipeline Infrastructure



LNG & Gas Carrier Shipbuilding



HSE



Liquefaction



Power Generation



Gas Monetisation NGL/GTL



LNG as a Shipping Fuel

### Contractors and Suppliers Exchange (CaSE)



#### Connecting The Gas Supply Chain

Gastech Exhibition | Monday, 24 March 2014  
13:30 - 16:00 followed by a Networking Reception

- **An insight on forthcoming projects** and the bid and tender processes
- **Face-to-face dialogue between contractors and suppliers** on key requirements and best practices to do business together
- **Networking and business opportunities** for industry-specific contractors and suppliers

#### Streams at CaSE

- Shipbuilding
- Onshore LNG Facilities
- Offshore LNG Facilities

### Meet your business development objectives

If your company supplies equipment or services to any of the streams at CoTEs or CaSE, find out how we can help you secure business with contractors across the entire show. Contact us on **+44 (0) 207 615 2847** or email **sales@gastechkorea.com**.

[www.gastechkorea.com/businesskorea](http://www.gastechkorea.com/businesskorea)



# 전세계에서 가장 우수한 통신회사로 kt가 3년 연속 선정되었습니다

세계 최초 광대역 LTE-A 서비스 시작으로 최고의 기술력을 선보인 kt

kt가 또 해냈습니다. 최고 권위의 다우존스가 세계 유수의 통신기업들을 제치고

‘유무선 통합 세계 1위의 통신회사’로 선정했습니다

기술력 뿐만 아니라, 재무성과가 탁월하고, 지배구조가 투명하며,

기업의 사회적 책임을 다하기 위해 가장 열심히 노력한다는 평가를 3년 연속 받았습니다

kt는 자만하거나 현실에 안주하지 않으며

보다 나은 통신 서비스 제공을 위해 묵묵히 노력하겠습니다

고객에게 드리는 국민기업 kt의 약속입니다



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Sustainability Indices**

In Collaboration with RobecoSAM

다우존스 지속가능 경영지수(DJSI)는 미국 S&P다우존스와 스위스 투자평가사인 RobecoSAM이 전세계 2,500여개 글로벌 기업을 대상으로 재무적인 성과와 비재무적인 요소를 종합적으로 평가해 지속가능성을 측정하는 세계적인 권위의 평가지수입니다. KT는 국내통신사 최초로 3년 연속 유무선통합 통신분야의 인더스트리그룹 리더로 선정 되었습니다

**kt**





## **The first** to export petroleum products Making Korea export **the best** petroleum products

The petroleum product is the No.1 exported item in Korea in the first half of 2013.  
Last year S-OIL made \$20 billion dollars by exporting 65% of its petroleum production to 40 different countries across the world. S-OIL has focused on reaching the overseas market since its founding and continues to work on ways to increase the exportation of petroleum products.